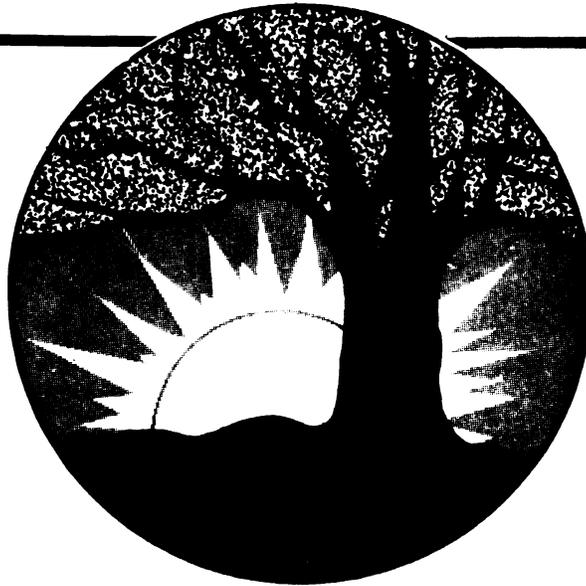


PERFORMANCE AUDIT

Tennessee Higher Education Commission
January 2014



Justin P. Wilson
Comptroller of the Treasury



State of Tennessee
Comptroller of the Treasury
Department of Audit
Division of State Audit

Deborah V. Loveless, CPA, CGFM
Director

PERFORMANCE AUDIT
Joseph Schussler, CPA, CGFM
Assistant Director

Dena Winningham, CGFM
Audit Manager

Jennifer M. Garoutte,
CGFM, CFE
Alan Hampton
In-Charge Auditors

Katrina Colo
Robert Fox
Shelby Reagan
Staff Auditors

INFORMATION SYSTEMS
Daniel V. Willis, CPA, CISA, CGFM
Assistant Director

Elizabeth W. Pendergrass, CISA, CFE,
CGFM
Brent Rumbley, CPA, CISA, CFE
Audit Managers

Nicole Northern, CFE
Jeff White
Staff Auditors

Amy Brack
Editor

Amanda Adams
Assistant Editor

Comptroller of the Treasury, Division of State Audit
1500 James K. Polk Building, Nashville, TN 37243-1402
(615) 401-7897

Performance audits are available on-line at www.comptroller.tn.gov/sa/AuditReportCategories.asp.
For more information about the Comptroller of the Treasury, please visit our website at
www.comptroller.tn.gov.



STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF STATE AUDIT

SUITE 1500
JAMES K. POLK STATE OFFICE BUILDING
NASHVILLE, TENNESSEE 37243-1402
PHONE (615) 401-7897
FAX (615) 532-2765

January 17, 2014

The Honorable Ron Ramsey
Speaker of the Senate
The Honorable Beth Harwell
Speaker of the House of Representatives
The Honorable Mike Bell, Chair
Senate Committee on Government Operations
The Honorable Judd Matheny, Chair
House Committee on Government Operations
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243
and
Dr. Richard Rhoda, Executive Director
Tennessee Student Assistance Corporation
404 James Robertson Parkway, Suite 1510
Nashville, TN 37243

Ladies and Gentlemen:

Transmitted herewith is the performance audit of the Tennessee Higher Education Commission. This audit was conducted pursuant to the requirements of Section 4-29-111, *Tennessee Code Annotated*, the Tennessee Governmental Entity Review Law.

This report is intended to aid the Joint Government Operations Committee in its review to determine whether the commission should be continued, restructured, or terminated.

Sincerely,

Deborah V. Loveless, CPA
Director

DVL/dww
13017

State of Tennessee

Audit Highlights

Comptroller of the Treasury

Division of State Audit

Performance Audit
Tennessee Higher Education Commission
January 2014

AUDIT OBJECTIVES

The objectives of the audit were: (1) to review the funding formula and its data sources to determine the reliability of the formula and the data that feeds into the formula; (2) to review the Postsecondary School Authorization complaint process, procedures, and complaint tracking database to determine the adequacy of the database, the adequacy of the complaint process and procedures, and the security, reliability, and functionality of the complaint tracking database; (3) to review Chapter 1540-01-01, Authorization and Regulation of Postsecondary Education Institutions and their Agents as of November 16, 2006, which was involved in *National College of Business and Technology and Remington College—Memphis Campus vs. Tennessee Higher Education Commission* to determine the effects of the November 2011 court order, which declared the rules invalid; (4) to determine if untimely data submissions affect the ability of the Tennessee Higher Education Commission (THEC) to meet deadlines for legislatively mandated reports and whether legislative action is needed to modify THEC's enforcement authority; (5) to review college catalogs for consistency in the application of the common course number system required for the uniform transfer pathways under the Complete College Tennessee Act; (6) to provide information on the status of the Race to the Top program; (7) to provide information regarding THEC's Title VI reporting; and (8) to provide information regarding THEC's performance measures.

FINDINGS

THEC did not have adequate controls over its funding formula

The Tennessee Higher Education Commission (THEC) did not ensure that the funding formula used to allocate operational funds to the state's 9 public universities and 13 community colleges was protected from unauthorized changes. THEC did not use documented procedures to control access to the funding formula or to control how, or even if, formula changes were made. Because the funding formula is maintained in a Microsoft Excel spreadsheet and spreadsheets can be easily (and often accidentally) changed, access and change control procedures are essential to ensure the integrity of the data (page 10).

THEC's limited involvement in the development and implementation of the Tennessee Transfer Pathways Program does not align with the original intent of the Complete College Tennessee Act, and implementation of the program is incomplete

While the Tennessee Higher Education Commission was involved in the process of choosing the first majors to create pathways, its subsequent involvement has been limited, and the Tennessee Board of Regents and the University of Tennessee Board of Trustees have taken the lead in creating and implementing the pathways. We also found that not all majors offered in the state have transfer pathways as required by CCTA, common course numbering implementation should be the goal as the higher education community becomes more integrated, and there are weaknesses in the information shown on the Tennessee Transfer Pathways website for some majors (page 12).

OBSERVATIONS AND COMMENTS

The audit also discusses the following issues: the Executive Director of the Tennessee Higher Education Commission also serves as the Executive Director of the Tennessee Student Assistance Corporation and votes on the Tennessee Student Assistance Corporation Board, creating the appearance of a conflict of interest; schools that do not submit data on time could undermine THEC's ability to find and correct errors and meet reporting deadlines; noted changes in higher education funding; the Division of Postsecondary School Authorization's complaint-handling process has improved; the Davidson County Chancery Court's decision on *The National College of Business & Technology et. al. v. Tennessee Higher Education Commission* invalidated 2008 Division of Postsecondary School Authorization rule changes prompting the commission to submit new proposed rules to the Department of State; the 2005 Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR UP) grant is successfully completed, and the 2012 grant has begun; and Tennessee completes year three of the U.S. Department of Education's Race to the Top Grant (page 19).

ISSUES FOR LEGISLATIVE CONSIDERATION

The General Assembly may wish to consider whether transfer pathways should be created for all majors currently offered in Tennessee public higher education institutions, as currently required by Section 49-7-202, *Tennessee Code Annotated*, or whether it wishes to seek revision to this section to allow a narrow exception for majors in those fields that, by their nature, cannot feasibly develop transfer pathways.

Performance Audit Tennessee Higher Education Commission

TABLE OF CONTENTS

	<u>Page</u>
INTRODUCTION	1
Purpose and Authority for the Audit	1
Objectives of the Audit	1
Scope and Methodology of the Audit	2
History and Statutory Responsibilities	2
Organization	4
Revenues and Expenditures	9
FINDINGS AND RECOMMENDATIONS	10
1. THEC did not have adequate controls over its funding formula	10
2. THEC’s limited involvement in the development and implementation of the Tennessee Transfer Pathways Program does not align with the original intent of the Complete College Tennessee Act, and implementation of the program is incomplete	12
OBSERVATIONS AND COMMENTS	19
The Executive Director of the Tennessee Higher Education Commission also serves as the Executive Director of the Tennessee Student Assistance Corporation and votes on the Tennessee Student Assistance Corporation Board, creating the appearance of a conflict of interest	19
Schools that do not submit data on time could undermine THEC’s ability to find and correct errors and meet reporting deadlines	21
Noted changes in higher education funding	22
The Division of Postsecondary School Authorization’s complaint-handling process has improved	30

TABLE OF CONTENTS (CONTINUED)

	<u>Page</u>
The Davidson County Chancery Court’s decision on <i>The National College of Business & Technology et. al. v. Tennessee Higher Education Commission</i> invalidated 2008 Division of Postsecondary School Authorization rule changes, prompting the commission to submit new proposed rules to the Department of State	33
The 2005 Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR UP) grant is successfully completed, and the 2012 grant has begun	33
Tennessee completes year three of the U.S. Department of Education’s Race to the Top grant	37
RECOMMENDATIONS	40
Legislative	40
Administrative	40
APPENDICES	42
Title VI and Other Information	42
Performance Measures Information	47
Funding of State Community Colleges and Universities	50

Performance Audit Tennessee Higher Education Commission

INTRODUCTION

PURPOSE AND AUTHORITY FOR THE AUDIT

This performance audit of the Tennessee Higher Education Commission was conducted pursuant to the Tennessee Governmental Entity Review Law, *Tennessee Code Annotated*, Title 4, Chapter 29. Under Section 4-29-235, the commission is scheduled to terminate June 30, 2014. The Comptroller of the Treasury is authorized under Section 4-29-111 to conduct a limited program review audit of the agency and to report to the Joint Government Operations Committee of the General Assembly. The audit is intended to aid the committee in determining whether the commission should be continued, restructured, or terminated.

OBJECTIVES OF THE AUDIT

The objectives of the audit of the Tennessee Higher Education Commission (THEC) were to

1. review the funding formula and its data sources to determine the reliability of the formula and the data that feeds into the formula;
2. review the Postsecondary School Authorization complaint process, procedures, and complaint tracking database to determine the adequacy of the database, the adequacy of the complaint process and procedures, and the security, reliability, and functionality of the complaint tracking database;
3. review Chapter 1540-01-01, Authorization and Regulation of Postsecondary Education Institutions and their Agents as of November 16, 2006, which was involved in *National College of Business and Technology and Remington College—Memphis Campus vs. Tennessee Higher Education Commission* to determine the effects of the November 2011 court order, which declared the rules invalid. Also review any changes to Chapter 1540-01-02 since November 16, 2006, to determine the effect of the rescission on those governed by Chapter 1540-01-02;
4. determine if untimely data submissions affect THEC's ability to meet deadlines for legislatively mandated reports and whether legislative action is needed to modify THEC's enforcement authority;
5. review college catalogs for consistency in the application of the common course number system required for the uniform transfer pathways under the Complete College Tennessee Act;

6. provide information on the status of the Race to the Top program;
7. provide information regarding THEC's Title VI reporting; and
8. provide information regarding THEC's performance measures.

SCOPE AND METHODOLOGY OF THE AUDIT

The activities of the Tennessee Higher Education Commission were reviewed for fiscal years 2008 through 2013. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. Methods used included

1. review of applicable legislation and policies and procedures;
2. examination of the entity's records, reports, and information summaries; and
3. interviews with department staff and staff of other state agencies that interact with the agency.

For our sample design, we used nonstatistical audit sampling, which was the most appropriate and cost-effective method for concluding on our audit objectives. Based on our professional judgment, review of authoritative sampling guidance, and careful consideration of underlying statistical concepts, we believe that nonstatistical sampling provides sufficient, appropriate audit evidence to support the conclusions in our report. We present more detailed information about our methodologies in the individual report sections.

The Comptroller of the Treasury is an ex-officio, voting member of the Tennessee Higher Education Commission. We do not believe the Comptroller's service on this commission affected our ability to conduct an independent audit.

This audit also reviewed the operations of the Tennessee Student Assistance Corporation (TSAC), managed by the Tennessee Higher Education Commission Executive Director. Results related to TSAC are in a separate report issued in January 2014.

HISTORY AND STATUTORY RESPONSIBILITIES

The Tennessee Higher Education Commission (THEC) was created in 1967 for the purpose of achieving coordination and unity in higher education. Statutory duties of THEC are described in Section 49-7-202, *Tennessee Code Annotated*, and include

- developing a statewide master plan for public higher education in Tennessee that includes the colleges of applied technology;

- developing policies or guidelines for fair and equitable distribution and use of public funds among the state's institutions of higher learning that are consistent with the statewide master plan;
- studying the need for particular programs and making recommendations for the purpose of reducing duplication and fostering cooperative programs among institutions;
- reviewing and approving or disapproving all proposals for new degrees or degree programs, departments, or divisions;
- conducting a program of public information concerning higher education in Tennessee;
- studying and making determinations concerning the establishment of new institutions of higher learning;
- submitting a biennial report to the Governor and the General Assembly commenting on major development, trends, budgets, and financial considerations that would be useful in planning for the development of the state's program of public higher education;
- reviewing and approving or disapproving all proposals by any existing higher education institution to establish a physical presence at any location other than its main campus, or to extend an existing location, which will be utilized for administrative purposes or to offer courses for which academic credit is offered; and
- within 30 days following the Governor's submission of the budget to the General Assembly, preparing a report that analyzes the effect off-site academic locations have on the distribution of formula funding to the main campuses.

The commission has 10 voting members appointed by the Governor: one lay member from each of the nine congressional districts and two student members, one of whom is nonvoting during the first year of appointment but rotates into the voting position for the second year of appointment. The voting student position rotates between a student of the University of Tennessee and a student of a Tennessee Board of Regents school. In addition, the following are ex-officio members of the commission:

- the Comptroller of the Treasury,
- the Secretary of State,
- the State Treasurer, and
- the Executive Director of the State Board of Education (nonvoting).

Under Section 49-4-202, *Tennessee Code Annotated*, the Executive Director of the Tennessee Higher Education Commission, appointed pursuant to Section 49-7-205, *Tennessee Code Annotated*, serves as the Executive Director of the Tennessee Student Assistance Corporation. In 2012, the General Assembly changed the appointing authority for the THEC Executive Director from the commission to the Governor. As of November 2012, the

commission had a staff of 62, including the Executive Director, four Assistant Executive Directors, and five Associate Executive Directors.

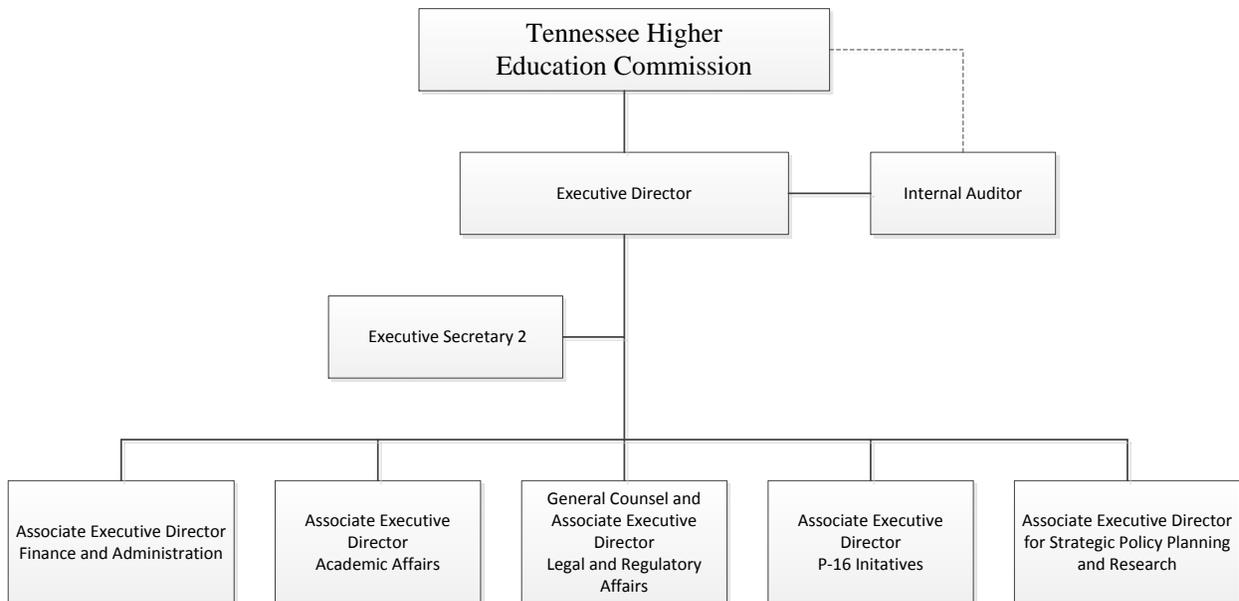
ORGANIZATION

THEC’s responsibilities are broken into six divisions: Fiscal Affairs; Academic Affairs; Policy, Planning, and Research; Legal and Regulatory Affairs; P-16 Initiatives; and First to the Top. (See the organization chart below.)

Fiscal Affairs

The Fiscal Affairs Division is charged with the coordination and execution of higher education policy in the state and the commission’s business and finance activities. The division develops the funding formula, which recommends fair and equitable funding among public higher education institutions of Tennessee. Fiscal Affairs prepares, for commission consideration, the annual appropriation recommendations. These recommendations outline operating, capital outlay, capital maintenance programs, and campus master plans and affect funding for the University of Tennessee and Tennessee Board of Regents systems.

Additionally, the Fiscal Affairs Division maintains a system of financial accounting and reporting for the state’s public higher education institutions. Along with making tuition and fee recommendations to the two systems, Fiscal Affairs conducts reviews and analyses of financial issues; supervises the review and presentation of higher education operating budgets; and staffs the THEC Committee on Fiscal Affairs.



Fiscal Affairs also coordinates and prepares appropriation recommendations for the Tennessee Student Assistance Corporation and operating funds for the Tennessee Foreign Language Institute and the commission. The division also manages allotments and prepares recommendations for the Tuition Discount and Fee Waiver, Contract Education, and Harold Love Community Service Awards programs.

Academic Affairs

The Academic Affairs Division performs a wide array of tasks related to academic programming at Tennessee colleges and universities, including reviewing and evaluating new and existing academic programs at universities and community colleges. The Academic Affairs Division also monitors compliance with certain facets of the Complete College Tennessee Act of 2010, coordinates the state Performance Funding Program, and administers federal and state grant programs.

The Tennessee Higher Education Commission's Performance Funding Program has been in operation for over thirty years. It is nationally recognized as a successful statewide supplemental funding incentive to encourage continuous improvement of programs and services. All public universities and community colleges have been able to earn additional funds (up to 5.45% of the institution's state funding) on the basis of quality improvement as measured by a common set of indicators.

The incentive has encouraged institutions to build comprehensive evaluation systems whereby they can reliably measure student learning. The Performance Funding Program serves as an accountability instrument for each five-year master plan and tracks measures the commission is statutorily required to report annually to the Tennessee General Assembly. For the 2010-15 cycle, institutions will focus on two quality standards: Quality of Student Learning and Quality of Student Support and Success. The Academic Affairs Division is responsible for outreach to institutions via both state and federal grant programs, including the Improving Teacher Quality grant program, the UTeach Program, the SREB Doctoral Scholars Program, and the Diversity in Teaching Program.

In addition, several P-16 Initiatives are housed within the Academic Affairs Division, the most notable of which is the higher education portion of Tennessee's First to the Top Program. The Academic Affairs Division is also involved with the

- Partnership for the Assessment of Readiness for College and Career (PARCC)—Tennessee is a governing state in the PARCC consortium. The postsecondary sector plays a significant role in this initiative, with Tennessee faculty and leaders serving in key roles during the development of the PARCC assessment;
- Core to College—a multi-state grant initiative designed to promote strong collaboration between higher education and the K-12 sectors in the implementation of the Common Core State Standards and aligned assessments. Core to College is funded by Rockefeller Philanthropy Associates, with technical assistance provided by Education First;

- Seamless Alignment and Integration of Learning Support (SAILS)—a partnership with the Tennessee Board of Regents and Chattanooga State Community College, THEC is currently piloting a statewide initiative to reduce the number of Tennessee students that require mathematics remediation. The SAILS program embeds high quality remedial math instruction in the senior year of high school, allowing students to address math deficiencies prior to entering higher education. Funded by the Governor’s Online Innovation budget, SAILS will reach over 8,000 high school seniors in 2013; and
- Complete College Tennessee Act of 2010—several facets of the act are monitored by the Academic Affairs Division, including mission distinction, articulation and transfer reporting, dual admissions, and research enhancement.

Policy, Planning, and Research

The principal focus of the Policy, Planning, and Research Division is to improve the coordination of educational policy and planning for the State of Tennessee. The division assists state leaders by directing attention to key policy issues; collecting and analyzing institutional data; conducting research studies; developing long-range plans and policies related to higher education; and initiating discussions that assist decision makers in Tennessee. Finally, the division serves as a clearinghouse for public opinion and census data related to higher education in Tennessee.

Administration of the Student Information System (SIS) is the responsibility of the Policy, Planning, and Research Division. THEC developed the SIS that is used to collect student data from the state’s public universities and colleges. The SIS was developed in 2003, primarily to be used for the state’s HOPE lottery scholarship program’s reporting requirements. Section 49-4-903, *Tennessee Code Annotated*, requires THEC to maintain data on students who receive a lottery scholarship and track their academic progress with respect to scholarship retention rates. THEC is responsible for maintaining and analyzing this data and reporting regularly to the legislature. The Tennessee Board of Regents system and the University of Tennessee system report information at the end of each academic term that includes data such as the number of enrolled students, the number of credit hours registered to each student, and biographical information such as race and gender.

Legal and Regulatory Affairs

The Legal and Regulatory Affairs Division encompasses a variety of programs and tasks. The division coordinates the commission’s interaction with the General Assembly in addition to conducting various regulatory functions, including Title VI compliance. Additional regulatory functions consist of veterans’ education benefits and authorization of proprietary and non-traditional not-for-profit educational institutions. The division is also charged with administration of the tuition discount and fee waiver programs.

The Division of Postsecondary School Authorization is the responsibility of Legal and Regulatory Affairs. The Postsecondary Authorization Act of 1974, Section 49-7-2001 et seq., *Tennessee Code Annotated*, and the Postsecondary Rules, Chapter 1540-1-2, outline areas of

responsibility administered through the Division of Postsecondary School Authorization that can be grouped into two areas: School Authorization and Consumer Services.

The Division of Postsecondary School Authorization oversees and monitors private proprietary, for-profit, and not-for-profit schools offering training or education that leads to a vocation, college credit, or issuance of an educational credential. In Tennessee, statute requires all nonpublic postsecondary institutions and programs to obtain approval of the Tennessee Higher Education Commission. Schools seeking authorization must demonstrate financial stability, fair consumer practices, and the ability to provide students with an educational benefit. Authorization may be granted to both degree and non-degree granting institutions and encompasses a wide variety of schools: academic, trade, technical, career, professional, and out-of-state institutions with presence, advertisement, and/or recruitment practices in Tennessee.

With regard to consumer services, the Division of Postsecondary School Authorization provides a variety of services to students and consumers. Helpful services include

- maintaining a list of currently authorized schools;
- assisting consumers with questions about selecting a school, including distance education programs;
- providing student academic transcripts from defunct schools (when available); and
- reviewing student complaints that are not resolved at the institutional level.

P-16 Initiatives/GEAR UP TN

The U.S. Department of Education awarded a Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR UP) grant to the Tennessee Higher Education Commission (THEC). GEAR UP, a seven-year discretionary grant program, aims to increase the number of low-income, first generation students enrolling and succeeding in college. THEC's successful GEAR UP TN proposal provides direct services to a cohort of students, the Class of 2018, beginning in the seventh grade and continuing through the cohort's first year of postsecondary education. GEAR UP TN also provides services to students in the senior class of participating high schools each grant year.

GEAR UP TN's local collaboratives include a lead high school(s) with at least 50% of enrolled students eligible for free or reduced-price lunch, at least one feeder middle school with at least 50% of enrolled students eligible for free or reduced-price lunch, a local board of education, a postsecondary institution, and two nonprofit organizations. Current GEAR UP TN sites include Anderson County, Bradley County, Campbell County, Claiborne County, Grainger County, Hardeman County, Haywood County, Henderson County, Johnson County, McNairy County, Memphis City Schools (Shelby County Schools as of July 1, 2013), Metro Nashville Public Schools, Robertson County, Union County, and Wayne County.

Race to the Top – Also Known as First to the Top

As part of the American Recovery and Reinvestment Act of 2009, President Barack Obama and Secretary of Education Arne Duncan announced the U.S. Department of Education's Race to the Top grant competition. Race to the Top is a \$4.35 billion incentive program designed to make sweeping education reforms at the state level. The state's Race to the Top proposal focused on the following key areas of improvement: Standards and Assessments, Data Systems to Support Instructions, Great Teachers and Leaders, Turning Around Low-Performing Schools, and STEM (Science, Technology, Engineering, and Math) Education. Institutions of higher education and THEC will be instrumental in ensuring the success of the Race to the Top initiatives and will play significant roles in achieving the program's overall goals.

With Tennessee's successful Race to the Top bid, higher education will have a substantial role in improving the education of Tennessee's citizens. Higher education will not only be involved in shaping the education reforms being enacted but will also be directly responsible for numerous programs. THEC will direct and manage numerous projects with a total fiscal impact of over \$20 million. The Race to the Top grant is in its fourth and final year and is set to expire in June 2014.

Master Plan 2010-2015

The Tennessee Higher Education Commission (THEC) is statutorily required to develop a statewide master plan for the future development of public higher education. The most recent iteration is the 2010-2015 *Master Plan for Tennessee Higher Education: The Public Agenda for Tennessee Higher Education*. The master plan aims to fulfill the commission's statutory obligation by outlining a vision for Tennessee higher education built on civic, corporate, and community partnerships. The concept of partnerships is fundamental to the core objectives of the master plan and provides the foundation for statewide policy initiatives such as providing greater access to postsecondary education and enhancing the competitiveness of Tennessee's workforce. The current master plan focuses on the explicit expectations of the Complete College Tennessee Act of 2010 and the responsibility of the state's higher education system to fulfill those broad objectives. As a result, THEC has emphasized substituting the language "public agenda" for the "master plan" terminology contained in the statute to better reflect the aims to develop a public policy agenda that can be shared by school personnel, policymakers, the business community, and other key stakeholders.

REVENUES AND EXPENDITURES

Tennessee Higher Education Commission Revenues by Source For the Fiscal Year Ended June 30, 2012

<i>Source</i>	<i>Amount</i>	<i>% of Total</i>
State	\$2,369,600	17.2%
Federal	\$4,459,500	32.5%
Other	\$6,913,900	50.3%
Total Revenue	\$13,743,000	100.0%

Tennessee Higher Education Commission Expenditures by Area for the Fiscal Year Ended June 30, 2012

<i>Account</i>	<i>Amount</i>	<i>% of Total</i>
Payroll	\$4,750,800	34.6%
Operational	\$8,992,200	65.4%
Total Expenses	\$13,743,000	100.0%

Tennessee Higher Education Commission Budget and Anticipated Revenues For the Fiscal Year Ended June 30, 2013

<i>Source</i>	<i>Amount</i>	<i>% of Total</i>
State	\$2,292,100	11.2%
Federal	\$7,134,900	35.0%
Other	\$10,982,800	53.8%
Total Revenue	\$20,409,800	100.0%

FINDINGS AND RECOMMENDATIONS

1. THEC did not have adequate controls over its funding formula

Finding

The Tennessee Higher Education Commission (THEC) did not ensure that the funding formula used to allocate operational funds to the state's 9 public universities and 13 community colleges was protected from unauthorized changes. THEC did not use documented procedures to control access to the funding formula or to control how, or even if, formula changes were made. Because the funding formula is maintained in a Microsoft Excel spreadsheet and spreadsheets can be easily (and often accidentally) changed, access and change control procedures are essential to ensure the integrity of the data.

The funding formula spreadsheet is made up of data provided by the state's colleges and universities and formulas maintained by THEC staff. According to THEC management, only three staff members have responsibility for making changes to the funding formula spreadsheet. THEC is responsible for assigning users access to files and folders on their servers; however, there were 13 additional staff members who had access to modify both the data and formulas in the spreadsheet. The Excel file is not password protected—network permissions provide the only access restrictions. Further, since there are no logs that document users' access of the spreadsheet, unauthorized changes could have been made without identifying which user made the changes. THEC management was apparently unaware that these 13 staff members could modify the funding formula spreadsheet. After we told THEC management about this access control problem, THEC reported to us that on September 6, 2013, they requested that access be appropriately restricted. As of October 7, 2013, however, there were still eight staff members with access to modify the spreadsheet. Five of these staff members did not have responsibility for making changes to the funding formula spreadsheet.

In addition to a lack of controls over access to the spreadsheet, THEC does not have documented procedures to be followed when changes need to be made to the spreadsheet data and formulas. Data from the colleges and universities are updated annually; formulas are modified by THEC staff as directed by THEC. THEC provides approval of general policy changes to the funding formula. THEC staff implements the policy changes by making technical modifications to the spreadsheet formulas. There is no formal process or documentation of changes to the spreadsheet data and formulas. Instead, THEC management stated that changes to the spreadsheet are reviewed by additional staff, but they do not maintain documentation of the review. Since THEC staff does not maintain previous versions of the current fiscal year spreadsheet, it would be difficult to undo unintentional or erroneous changes. In addition, management reported that they would perform analytical procedures and audits of the spreadsheet results, but these procedures and audits are not documented.

Not having proper access controls and change control procedures could result in unauthorized changes to the funding formula spreadsheet. The spreadsheet has numerous calculations and data points, so even a small, inadvertent change could impact schools' funding.

THEC staff noted that they review each data point and that the formula is additionally reviewed by the Tennessee Board of Regents, the University of Tennessee Board of Trustees, and each of the individual institutions funded through the formula. We reviewed certain data points in the spreadsheet and did not identify errors in those data points.

THEC's risk assessment identified the risk that "unauthorized changes are made to the computer system" and classified its impact as high, but likelihood as low, stating, "Only staff with administrator rights are allowed to make authorized changes to the computer system."

Recommendation

Management of the Tennessee Higher Education Commission should ensure only those users responsible for maintaining the funding formula have the ability to change the data and formulas in the funding formula spreadsheet. In addition, management should implement documented change control procedures to guide staff when they make approved changes to the formula and its supporting data. These change control procedures should include documented management review and approval of changes, system logging of all changes made, and version control. Management should consult with the Office for Information Resources to determine solutions already present in the state's infrastructure that would provide logging and version control over the spreadsheet.

Management's Comment

We concur. Access to the funding formula is restricted to individuals on the Fiscal staff, who have responsibility for executing the model, plus the agency's Internal Auditor and IT staff. As an additional security measure, THEC management will restrict access to the formula as "read-only" for the Internal Auditor and IT staff, leaving only those persons primarily responsible for the model with the ability to make changes to it. THEC utilizes Microsoft Office 2010 software, the latest version approved for use by the Office for Information Resources (OIR), which does not provide the logging and version control software tools that the recommendation suggests. However, THEC will consult with OIR to determine what solutions are available for use.

As the finding states, no data errors were identified in the formula model. All components of the funding formula are reviewed for data accuracy and mathematical integrity multiple times by Fiscal staff throughout the formula's execution and before funding recommendations are finalized. This internal review process is documented and data is reviewed and validated for accuracy by management prior to the funding formula being presented to the commission for approval. Data receives this additional layer of internal review, as well as a review from UT and TBR—the original sources of the data.

Furthermore, since 2010 THEC has convened an annual Formula Review Committee, consisting of representatives from UT, TBR, THEC and state government, to review the model and suggest any changes to its structure or calculations. No changes to the funding formula were

made for the 2014-15 budget cycle. In the future, if funding formula changes are approved by the commission, THEC staff will document the changes.

2. THEC’s limited involvement in the development and implementation of the Tennessee Transfer Pathways Program does not align with the original intent of the Complete College Tennessee Act, and implementation of the program is incomplete

Finding

While there were many requirements of the Complete College Tennessee Act (CCTA) regarding a university tract program (Tennessee Transfer Pathways), our review focused on the Tennessee Higher Education Commission’s (THEC’s) responsibilities in developing the program, the majors offered for transfer, and the common course numbering system. We found that while THEC was involved in the process of choosing the first majors to create pathways, its involvement has been limited since and the Tennessee Board of Regents and the University of Tennessee Board of Trustees have taken the lead in creating and implementing the pathways. We also found that not all majors offered in the state have transfer pathways as required by CCTA; common course numbering implementation should be the goal as the higher education community becomes more integrated; and there are weaknesses in the information shown on the Tennessee Transfer Pathways website for some majors.

THEC Responsibility

According to Section 49-7-202(e)(1), *Tennessee Code Annotated*,

The commission shall develop a university tract program within the University of Tennessee and the Tennessee board of regents systems consisting of sixty (60) hours of instruction that can be transferred and applied toward the requirements for a bachelor’s degree at the public universities. The tract shall consist of forty-one (41) hours of general education courses instruction and nineteen (19) hours of pre-major courses instruction, or elective courses instruction that count toward a major, as prescribed by the commission, which shall consider the views of chief academic officers and faculty senates of the respective campuses. Courses in the university tract program shall transfer and apply toward the requirements for graduation with a bachelor’s degree at all public universities.

According to THEC’s Associate Executive Director for Academic Affairs, THEC provided guidance regarding majors, but the Tennessee Board of Regents (TBR) and the University of Tennessee (UT) systems are in control of the pathways and how they are implemented.

TBR is in full control of the Tennessee Transfer Pathways website, including the feedback portion of the website, where a student can ask questions or report that classes have not

transferred as indicated by the transfer pathways. Even though TBR is in control of this website regarding transfers of courses, the TBR four-year institutions do not maintain data to monitor problems that students might have in transferring course credits. The January 2014 University of Tennessee Board of Trustees Sunset audit found incomplete data, inconsistent procedures, and a lack of documentation regarding transfer data maintained by these universities as well. (See the January 2014 Tennessee Board of Regents Sunset audit as well as the January 2014 University of Tennessee Board of Trustees Sunset audit.)

Without a neutral, centralized agency responsible for the fair creation and implementation of transfer pathways, students may end up with problems transferring credits from community colleges to four-year institutions, regardless of the implementation of the transfer pathways and the intent of the Complete College Tennessee Act.

Not All Majors Have Pathways

The Complete College Tennessee Act of 2010 (CCTA) requires every major offered at Tennessee public universities to have a “university tract program” whose courses “shall transfer and apply toward the requirements for graduation with a bachelor’s degree at all public universities,” allowing community college students a smooth transfer of college course credits to public universities.

Tennessee Transfer Pathways Available as of September 9, 2013

Accounting	Economics – Liberal Arts – MTSU & UTC	Mechanical Engineering
Agriculture – Agriculture Business	Economics – Liberal Arts – UoM	Music
Agriculture – Animal Science	Economics – Liberal Arts – UTK	Physics
Agriculture – Plant and Soil Science	Electrical Engineering	Political Science
Art (Studio)	English	Pre-Physical Therapy
Biology	Exercise Science	Pre-Health
Business Administration	Foreign Language	Pre-Nursing
Chemistry	Geography	Pre-Occupational Therapy
Civil Engineering	History	Psychology
Computer Science	Information Systems	Social Work
Criminal Justice	Kinesiology	Sociology
Economics – Business	Mass Communication	Speech Communication
Economics – Liberal Arts – ETSU	Mathematics	Theatre Arts

Source: www.tntransferpathway.org.

The May 2012 CCTA performance audit reported that creating pathways for all majors may be unreasonable due to the nature of the major’s program. For example, some performance arts and/or music performance students in bachelor’s degree programs work with a coach over their entire college career and need to start working with that coach and major-related

coursework in the first years of their college career. (See the January 2014 Sunset audits of the Tennessee Board of Regents and the University of Tennessee Board of Trustees for more information on problems implementing pathways for all majors.) Both UT and TBR state that they will be seeking to modify the requirements for all majors to have pathways during the 2014 legislative session.

Common Course Numbering Implementation

Section 49-7-202(e)(2), *Tennessee Code Annotated*, requires the commission, in consultation with TBR and the UT Board of Trustees, to develop a common course numbering system, taking into account the efforts already undertaken at the community colleges. The Board of Regents created a common course numbering system among the community colleges. The May 2012 performance audit of the implementation of the Complete College Tennessee Act found that implementing a common course numbering system in all public higher education institutions could not be achieved easily or cost-effectively but recommended that as the higher education community becomes more closely integrated, it should work toward the goal of adopting a statewide common course numbering system.

Since common course numbering has not been implemented across the four-year institutions, tables would be helpful in order to show which classes are equivalent at the different schools. Some schools have equivalency charts showing which classes are equal at different schools; however, not all schools have these easily accessible to their students. (See the table on the following page.)

Online Availability of Equivalency Chart Data for Schools Sampled Compared to All Other State Institutions

As of May 2013

	Sampled Community Colleges			Sampled Four-year Universities		
	Chattanooga State	Dyersburg State	Motlow State	Middle Tennessee State University	University of Tennessee - Chattanooga	University of Tennessee - Martin
<u>Community Colleges</u>						
Chattanooga State				Yes	Yes	Yes
Cleveland State				Yes	Yes	Yes
Columbia State				Yes	Yes	Yes
Dyersburg State				Yes	Yes	Yes
Jackson State				Yes	Yes	Yes
Motlow State				Yes	Yes	Yes
Nashville State				Yes	Yes	Yes
Northeast State				Yes	Yes	Yes
Pellissippi State				Yes	Yes	Yes
Roane State				Yes	Yes	Yes
Southwest Tennessee				Yes	Yes	Yes
Volunteer State				Yes	Yes	Yes
Walters State				Yes	Yes	Yes
<u>TBR Four-year Universities</u>						
Austin Peay State University	Yes	Yes	No	Yes	Yes	Yes
East Tennessee State University	Yes	No	Yes	Yes	Yes	Yes
Middle Tennessee State University	Yes	Yes	Yes		Yes	Yes
Tennessee State University	No	No	No	Yes	No	Yes
Tennessee Technological University	Yes	Yes	Yes	Yes	Yes	Yes
University of Memphis	Yes	Yes	Yes	Yes	Yes	Yes
<u>UT Four-year Universities</u>						
University of Tennessee – Chattanooga	Yes	No	Yes	Yes		Yes
University of Tennessee – Knoxville	Yes	Yes	Yes	Yes	Yes	Yes
University of Tennessee – Martin	No	Yes	Yes	Yes	Yes	

This is problematic due to the lack of transparency in transferring courses. Students should be able to see whether courses they have already taken will transfer to their new school and meet degree completion requirements.

Transfer Pathways Information Weaknesses

We randomly selected six transfer pathway majors, three community colleges, and three universities to test common course numbering for transfer pathway majors and verify that equivalent courses are available at both the community colleges and universities. We reviewed the course requirements listed on the Tennessee Transfer Pathways website and compared these to the courses offered and accepted by the community colleges and universities for the following six majors:

- economics (business route),
- geography,
- mechanical engineering,
- political science,
- pre-occupational therapy, and
- business administration.

Our selected institutions were

- Chattanooga State Community College,
- Dyersburg State Community College,
- Motlow State Community College,
- Middle Tennessee State University,
- University of Tennessee–Chattanooga, and
- University of Tennessee–Martin.

The Tennessee Transfer Pathways website shows no community college in the state offering a pathway for the geography major. It is unclear how the pathway from a community college to a four-year institution can be followed considering no community college offers it.

For two majors in our sample, economics (business route) and business administration, Math 1630, Finite Mathematics, is listed as a required course. Our review revealed that Chattanooga State Community College offered both of these pathways in academic year 2013, but the institution's online catalog for 2012-2013 revealed no course matching this number or description. However, the 2013-2014 catalog does list Math 1630 as an available course.

The pre-occupational therapy pathway lists Math 1720, Pre-Calculus II, as a required math course; however, the online catalogs for Chattanooga State and Dyersburg State list Math

1710 as a prerequisite for Math 1720. The Tennessee Transfer Pathways website shows only two math courses (1530 and 1720) as requirements to complete the 60-hour pathway. Failure to show prerequisite classes in transfer pathways could result in the number of hours a student is required to take being more than the hours actually shown for the pathway. In this example, taking the Math 1710 prerequisite would result in the student being required to complete 63 hours for the pathway major instead of just 60. This could also lead to confusion, and students could end up taking the wrong courses.

Recommendation

As required by law, the Tennessee Higher Education Commission (THEC) should be more involved with the Tennessee Transfer Pathways program. Having complaints from the Transfer Pathways website go straight to THEC would ensure THEC remains involved in the process and sees first-hand any problems with the implementation of the pathways programs. Currently, the Tennessee Board of Regents (TBR) and the University of Tennessee (UT) are responsible for a majority of the process, and there seem to be no controls ensuring the program is run consistently and fairly across the two systems.

The General Assembly may wish to consider whether transfer pathways should be created for all majors currently offered in Tennessee public higher education institutions as currently required by Section 49-7-202, *Tennessee Code Annotated*, or whether it wishes to seek revision to this section to allow a narrow exception for majors in those fields that, by their nature, cannot feasibly develop transfer pathways. Regardless of the General Assembly's decision, TBR, along with the UT Board of Trustees and THEC, should ensure that all transfer pathways required by the Complete College Tennessee Act of 2010 are developed as soon as possible, given that they were required by fall 2011.

THEC should work with the UT Board of Trustees and TBR to review the pathways already implemented to ensure that the course requirements listed are correct and that the schools involved in the pathways offer all pathway-required courses. Any issues with the curriculum need to be addressed and updated on the Tennessee Transfer Pathways website immediately.

Until common course numbering at all Tennessee institutions can be achieved, THEC should work with TBR and UT school systems to create course equivalency charts for each school. Since courses for the transfer pathways are only guaranteed to transfer as completed associate's degrees or subject blocks, initial focus should be on the 60 hours of general education and pre-major courses. Because equivalency charts should be readily available to students and advisors, THEC and the institutions may want to consider having THEC maintain a master equivalency chart for all state institutions.

Management's Comment

We concur in part. The finding that the implementation of the Tennessee Transfer Pathways is incomplete reflects the reality that while an enormous amount of effort was devoted to establishing specific course requirements for the Tennessee Transfer Pathways, practicality necessitated the exclusion of certain programs from the development of transfer paths. THEC, in partnership with the Board of Regents and the University of Tennessee, will seek a revision of this statute by the General Assembly during the 2014 legislative session.

We do not concur regarding the statement that THEC had limited involvement in the development and implementation of the Tennessee Transfer Pathways program. THEC has provided leadership in both the development and implementation of the Pathways. The development of the pathways began with a THEC-led data analysis that indicated which academic pathways were most heavily utilized by students, and thus most beneficial for development.

While the academic nature of these pathways required the substantive work of development be conducted by TBR and UT faculty members, THEC has remained actively involved in monitoring and leading the work of pathway development. Beginning in 2010, immediately after passage of the Complete College Tennessee Act, THEC provided a detailed annual report to the public and General Assembly regarding the status of the Tennessee Transfer Pathways. These reports are available for review on the THEC website. The work of assembling this research is illustrative of the deep and ongoing oversight THEC, in conjunction with the Board of Regents and the University of Tennessee, has maintained regarding the development and implementation of the Tennessee Transfer Pathways. These reports serve as both a useful policy analysis instrument, as well as an accountability mechanism that THEC utilizes to closely follow pathway development.

OBSERVATIONS AND COMMENTS

The topics discussed below did not warrant a finding but are included in this report because of their effect on the operations of the Tennessee Higher Education Commission and on the citizens of Tennessee.

The Executive Director of the Tennessee Higher Education Commission also serves as the Executive Director of the Tennessee Student Assistance Corporation and votes on the Tennessee Student Assistance Corporation Board, creating the appearance of a conflict of interest

In 2009, the General Assembly changed the governance structure of the Tennessee Higher Education Commission (THEC) and the Tennessee Student Assistance Corporation (TSAC) so the two entities would share one common Executive Director. Due to the change in both the appointment authority and governance structure, auditors sought to analyze three main issues:

- if the Executive Director's position on both the THEC and TSAC boards may create the appearance of a conflict of interest;
- if the state's legal liability per Section 49-4-403, *Tennessee Code Annotated*, had changed as a result of the 2009 amendment; and
- if merging TSAC and THEC into one entity would increase organizational effectiveness and efficiency.

We found that the THEC and TSAC Executive Director's service on the TSAC board creates the appearance of a conflict of interest, the state's legal liability did not change as a result of the Governor directly appointing the TSAC Executive Director, and merging TSAC and THEC into one entity would not increase organizational effectiveness and efficiency.

Appearance of Conflict of Interest

Section 49-4-202, *Tennessee Code Annotated*, states that the Executive Director of THEC will also serve as the Executive Director of TSAC. In 2012, the General Assembly changed the appointment of the Executive Director from the commission to the Governor. Thus, in effect, the Governor now appoints the Executive Director for both entities.

As outlined in Section 49-4-202, *Tennessee Code Annotated*, TSAC's governing board of directors includes

- the Governor;
- the Commissioner of Education;
- the State Treasurer;

- the Comptroller of the Treasury;
- the Commissioner of Finance and Administration;
- the Director of the Tennessee Higher Education Commission;
- the President of the Tennessee Independent Colleges and Universities;
- the President of the Tennessee Proprietary Business School Association;
- the chair of the Tennessee Independent Colleges and Universities;
- the President of the University of Tennessee;
- the Chancellor of the Board of Regents;
- the President of the Tennessee Association of Student Financial Aid Administrators;
- a representative of a commercial lender;
- two students enrolled in an institution of higher education in Tennessee; and
- three private citizens involved in the field of education, but not employed by or professionally affiliated with any institution of higher education in the state.

Since TSAC’s board includes the Executive Director of THEC as one of its voting membership positions, and state law does not include the Executive Director of TSAC among the board membership, the Executive Director of TSAC inadvertently becomes a voting member on the board instead of a separate position. This situation has the potential to create a conflict of interest during certain voting situations and, at a minimum, creates a public perception of such a conflict even if one does not exist.

State’s Liability

According to Section 49-4-403, *Tennessee Code Annotated*, “The state shall in no event be held liable for any loss of funds nor shall the state be in any way liable for the acts of the Tennessee Student Assistance Corporation.” This statute was enacted when the TSAC Executive Director was appointed by the TSAC Board of Directors and prior to the Governor’s direct appointment of the TSAC Executive Director. According to legal counsel for the Division of State Audit, the 2009 amendment does not change the state’s overall liability.

Analysis of Merging THEC and TSAC

TSAC’s main responsibilities are for state financial aid, while THEC’s responsibilities involve more higher education policy and data analysis. The entities’ organizational structures share three common positions—Executive Director, internal auditor, and human resources. There is no opportunity to collapse, combine, or remove positions via an organizational merge. We did not review individual jobs within THEC and TSAC, only whether merging would produce overall efficiency or effectiveness. With minimal overlap in the organizational charts and the varied responsibilities of the two entities, merging the entities does not produce any additional efficiency.

The Executive Director suggested that consolidation could possibly harm the “good working relationships” TSAC has with financial aid departments at various campuses. Also, some TSAC staff leave through attrition as loan programs begin to wind down, furthering the argument against merging the two entities.

The General Assembly may wish to consider the implications of the Executive Director of TSAC serving as a voting member on the TSAC board and may wish to determine whether legal changes, formal recusal guidelines, or a change in the board’s composition would best remedy the conflict of interest and restore independence to the Executive Director’s position.

Schools that do not submit data on time could undermine THEC’s ability to find and correct errors and meet reporting deadlines

An important aspect of THEC’s mission as the state’s primary coordinating body for higher education is to provide policy recommendations that will improve higher education in Tennessee. In support of that function, THEC gathers and analyzes institutional data that serves to inform both the legislature and the general public about important indicators used to assess the state of higher education.

2012 and 2013 Legislative Reports Completed by THEC

- *Tennessee Higher Education Fact Book–2012, 2013*
- *Joint Report–2012, 2013*
- *Off Campus Locations Report–2012, 2013*
- *Profiles and Trends–2012, 2013*
- *Tennessee Education Lottery Scholarship Annual Report–2012, 2013*
- *Tennessee Education Lottery Scholarship Program Special Report–2012*
- *Lottery Deficit Projection*
- *Higher Education County Profiles–2012*
- *Articulation & Transfer Report–2012*
- *Boosting Transfer Student Success–2012*
- *The Lottery Scholarship’s FAFSA Requirement and Its Impact on Pell Grants for Tennesseans–2012*
- *Fall Enrollment & Completion Update–2012*

THEC utilizes institutional data to create ad hoc reports and respond to legislative requests for information, as well as to produce the statutorily required *Annual Report (Tennessee Fact Book)* and to populate the outcomes-based funding formula model stemming from the Complete College Tennessee Act of 2010. However, THEC does not always receive requested data from the University of Tennessee and the Tennessee Board of Regents in a timely manner,

often leaving THEC a small window of time to evaluate the quality of the data, find errors or omissions, correct any problems, and then analyze and compile the data to meet reporting deadlines.

State law does not provide THEC with any formal enforcement power that could be used to elicit swifter compliance from institutions or to levy punitive measures against problematic schools. When asked by auditors whether greater enforcement ability would result in more timely data submission, THEC's Executive Director questioned how such an approach would work and if withholding funds, for example, would be the best course of action. Instead, he stated that THEC is trying to increase communication and awareness of reporting deadlines so that institutions know ahead of time and can be better prepared to submit data within the requested time frame. In 2011, the Policy, Planning, and Research Division began storing submission dates and error summary information for all data submissions and resubmissions. Problems associated with data submission delays have important implications and potentially negative consequences. THEC is currently aware of the problem and is working with the institutions to correct data timeliness issues. A process is currently in place to determine data accuracy, and schools are notified about any mistakes or problems with their submissions. THEC and the schools send the data back and forth until they reach an acceptable error rate—yet while individual schools determine their own error-rate tolerance, no uniform standard currently exists because THEC does not have the authority to establish a tolerable accuracy threshold.

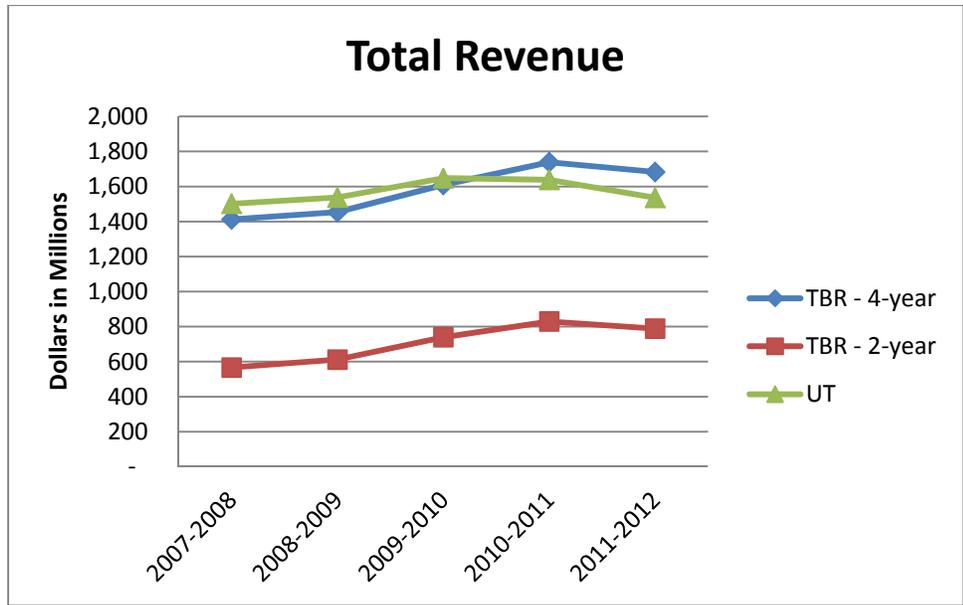
Noted changes in higher education funding

In January 2010, the Governor approved the Complete College Tennessee Act of 2010. The act replaced the higher education enrollment-based funding model with an outcomes-based funding formula. We compiled the revenue data below from budget summaries provided to the Division of State Audit during routine audits for fiscal years 2008-2012.

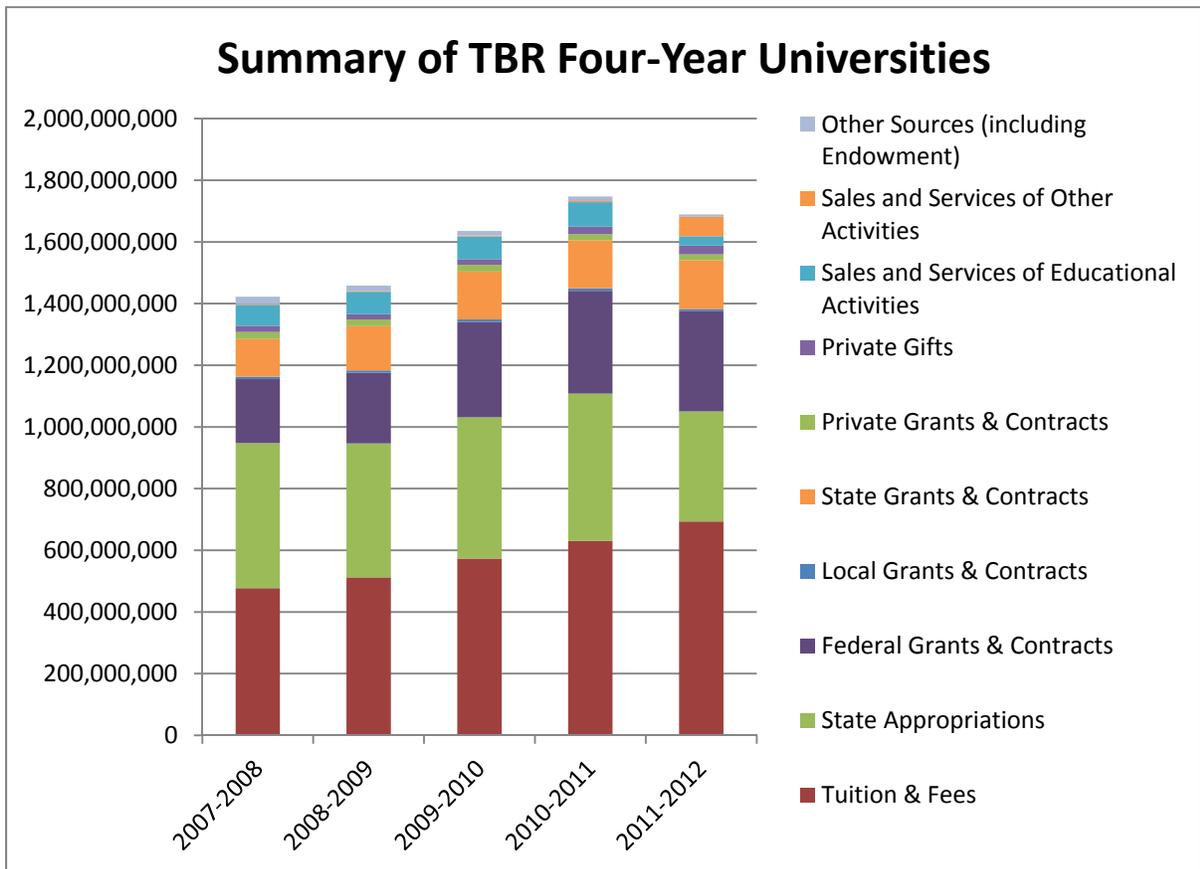
We reviewed overall revenue and the four revenue sources that make up the majority of each overall annual budget to determine trends before and immediately after the implementation of the Complete College Tennessee Act. We provide the following analysis for information purposes.

Overall Revenue

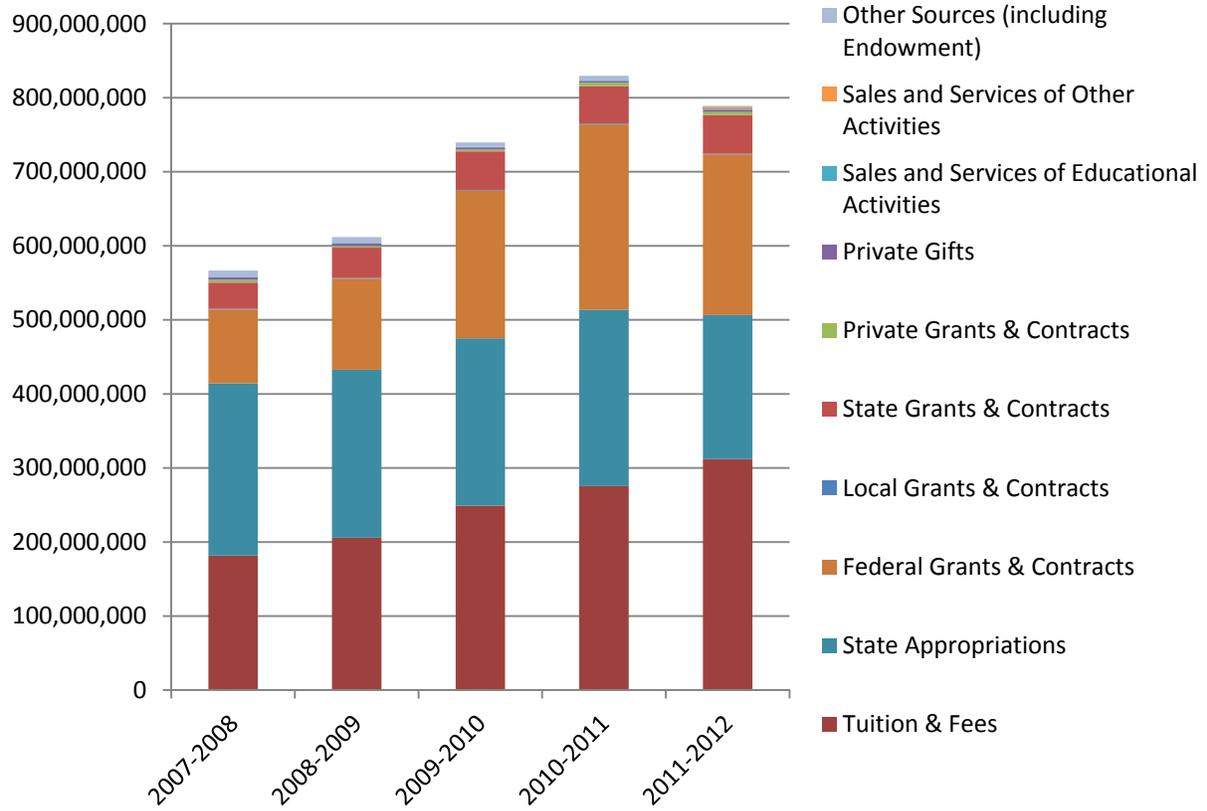
Since fiscal year 2008, total revenue dollars at the state's higher education institutions have increased.

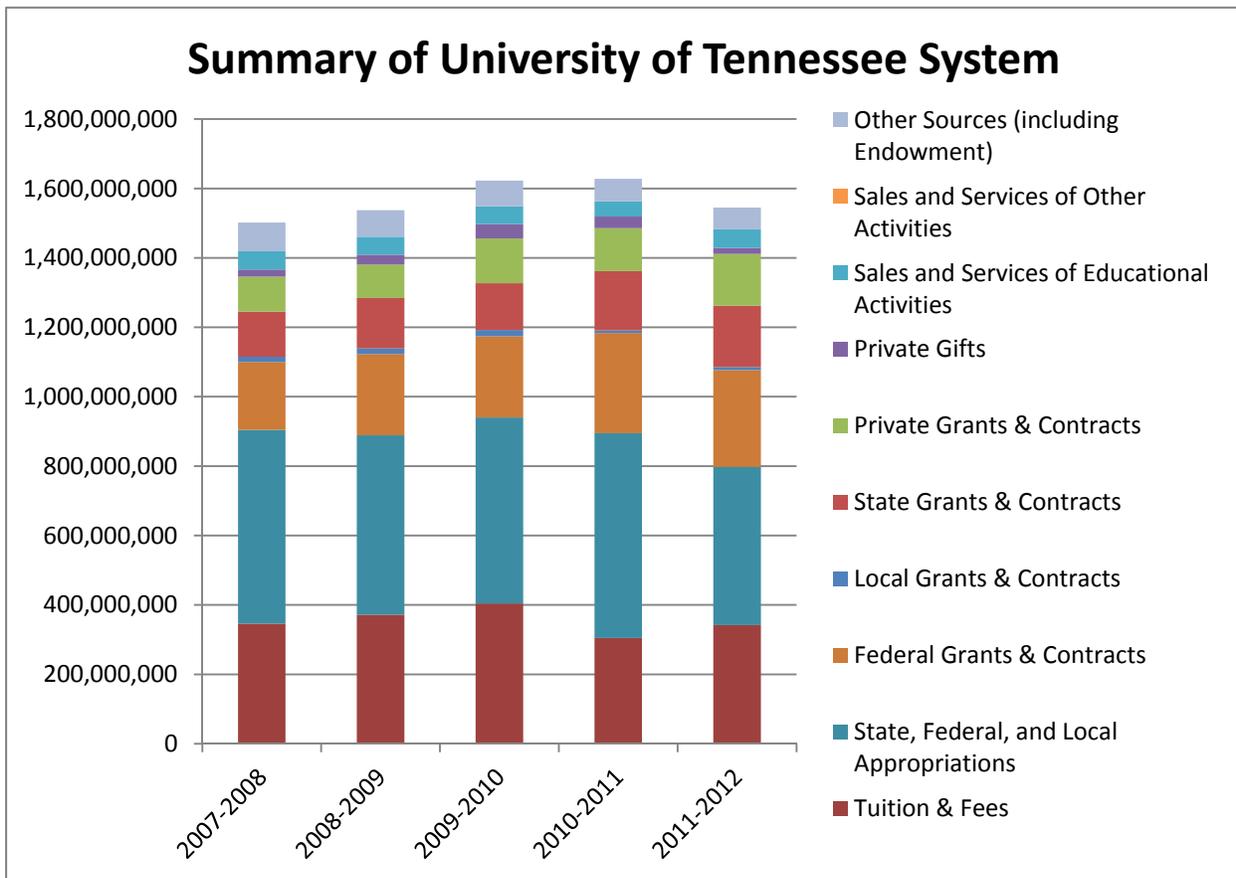


Total Revenue at Each Institution by Source – Even though total revenue dollars have mostly increased from fiscal year 2008-2012, revenue sources have fluctuated. This is observed in the following charts. (See Appendix 3 for graphs of revenue sources at individual higher education institutions.)



Summary of TBR Two-Year Colleges

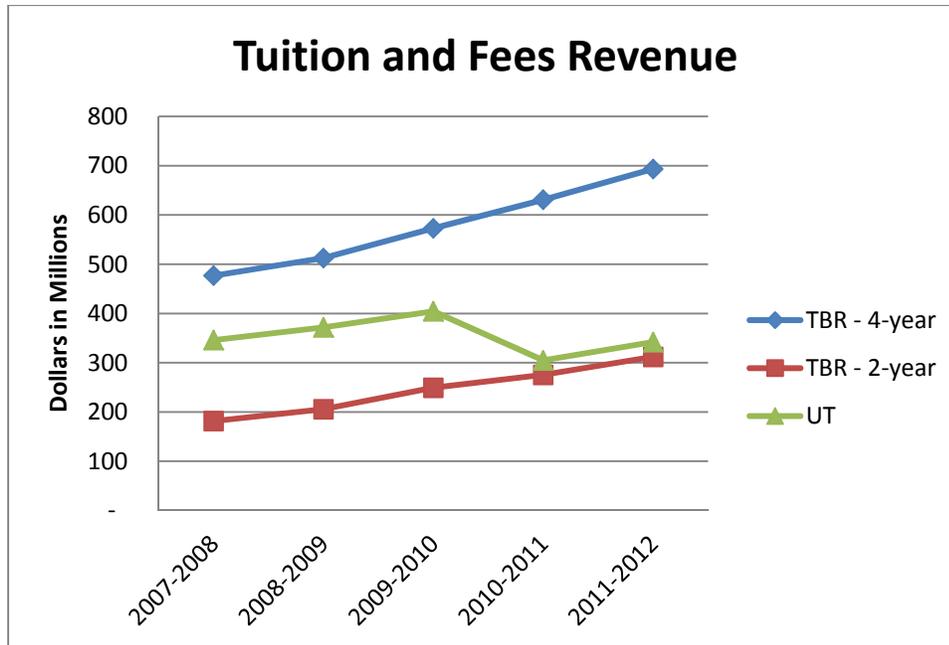




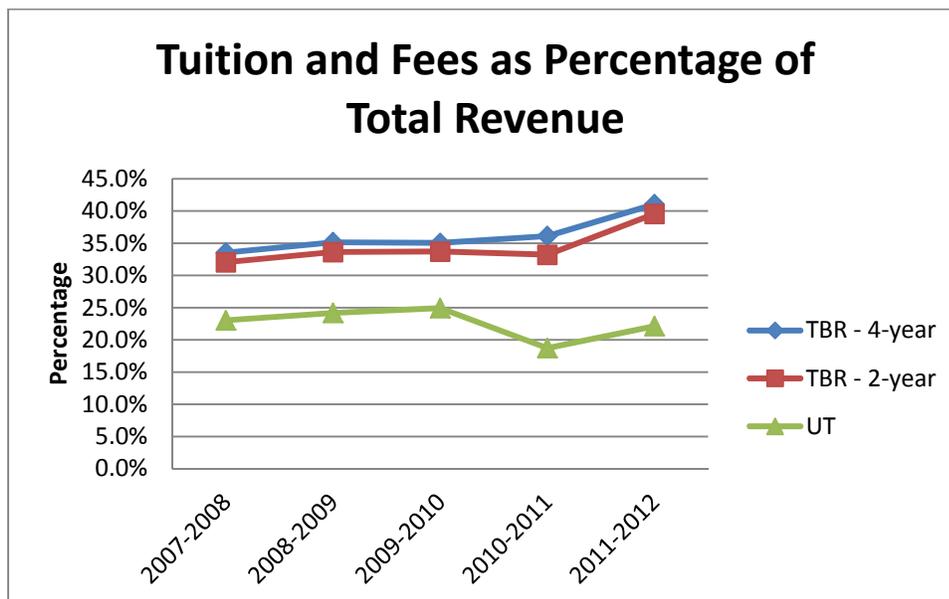
Tuition and Fees

Tuition and fees are made up of mandatory and non-mandatory fees paid by the student. These fees include tuition (in-state and out-of-state), student activity fees, computer lab fees, etc. Mandatory fees make up the majority of this funding source.

Tuition and Fees Revenue – The TBR two-year and four-year institutions experienced steady revenue increases every year, while UT experienced a drop in fiscal year 2011 but rebounded somewhat in fiscal year 2012.



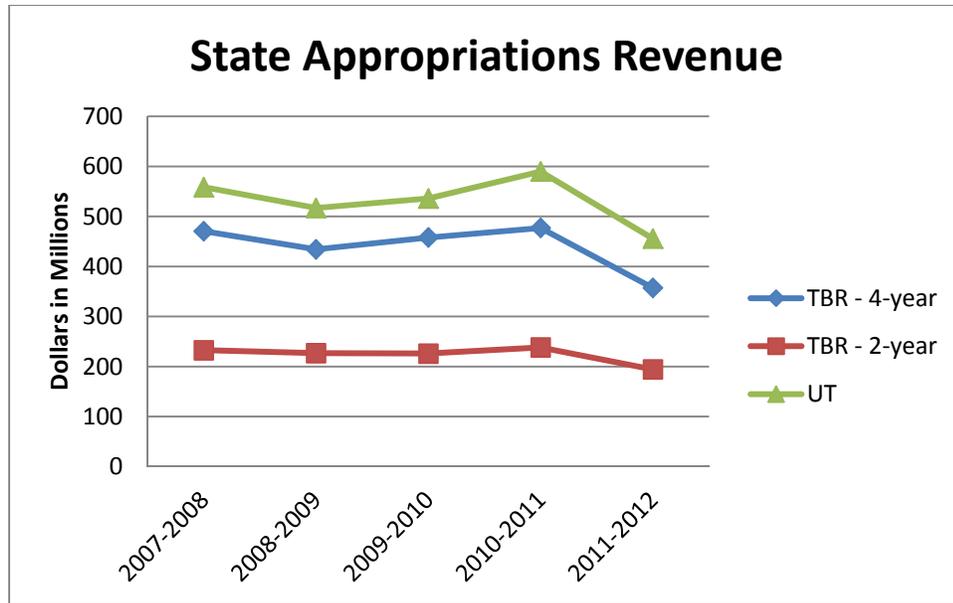
Tuition and Fees as a Percentage of Total Revenue – As you can see in the chart below, since fiscal year 2008, tuition and fees make up a growing percentage of total revenues at the TBR two-year and four-year institutions, while UT’s tuition and fees as a percentage of total revenue peaked in fiscal year 2010 and, as of fiscal year 2012, are almost equal to what they were in fiscal year 2008.



State Appropriations

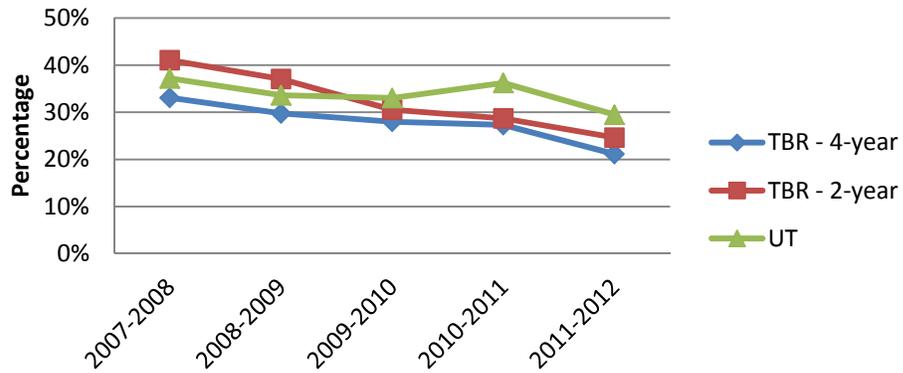
State appropriations are approved by the legislative body each year as a part of the state budget process. State appropriations include American Recovery and Reinvestment Act (ARRA) funding in 2010 and 2011.

State Appropriations Dollars - State appropriations at four-year institutions have seen a significant dollar value decrease since 2008. While state appropriations at two-year colleges have decreased, the dollar value has not been as large as with the four-year institutions.



State Appropriations as a Percentage of Total Revenue – From the chart below, state appropriations as a percentage of total revenue for all state institutions have declined since fiscal year 2008.

Federal, State, and Local Appropriations as Percentage of Total Revenue

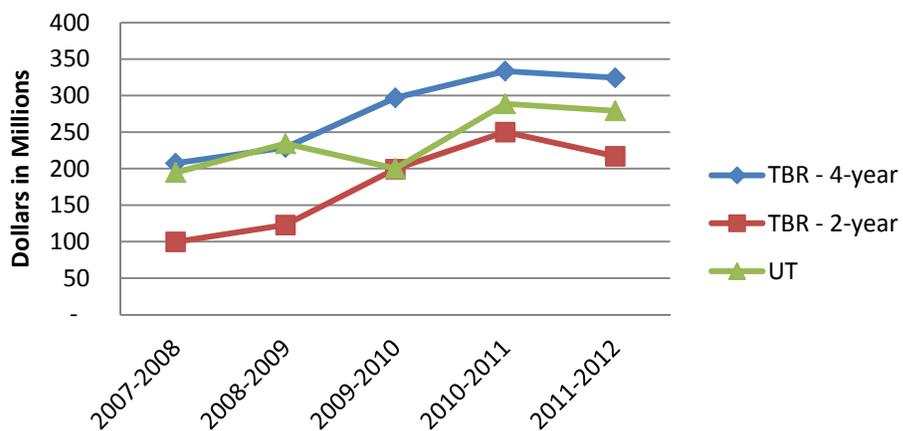


Federal Grants and Contracts

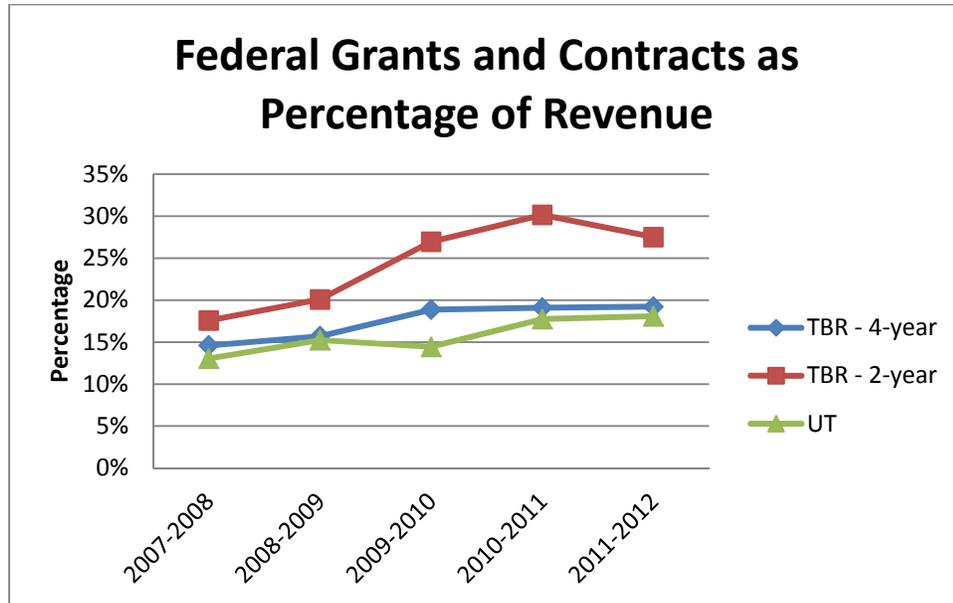
Federal grants and contracts are made up of federal financial aid such as Pell grants and the Supplemental Education Opportunity Grant.

Both the Tennessee Board of Regents and University of Tennessee systems saw significant increases in federal grant funding since 2008.

Federal Grants and Contracts Revenue



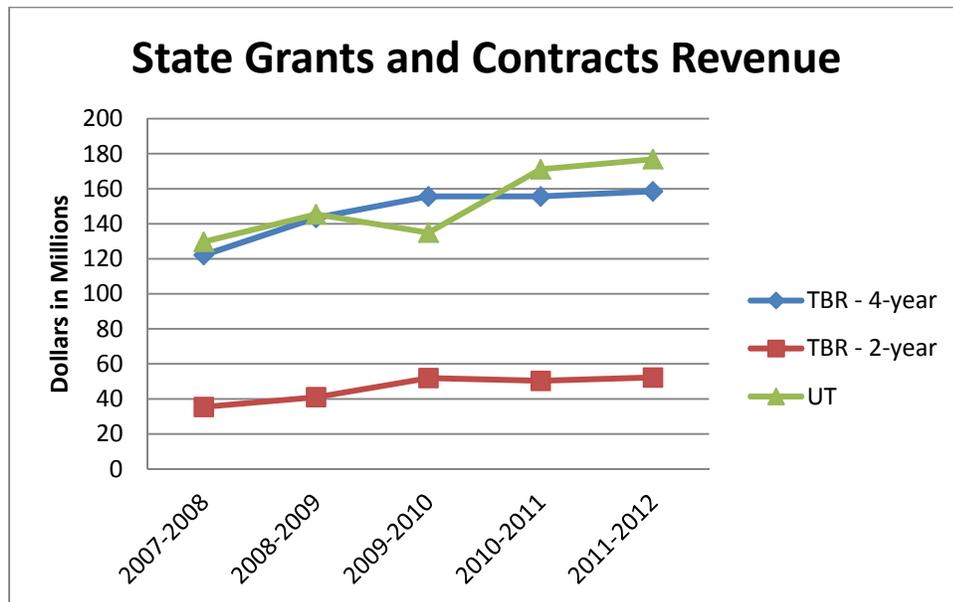
Federal Grants and Contracts as a Percentage of Total Revenue – Federal grants and contracts as a percentage of total revenue have fluctuated slightly for UT and the TBR two-year institutions while remaining relatively steady for the TBR four-year institutions.



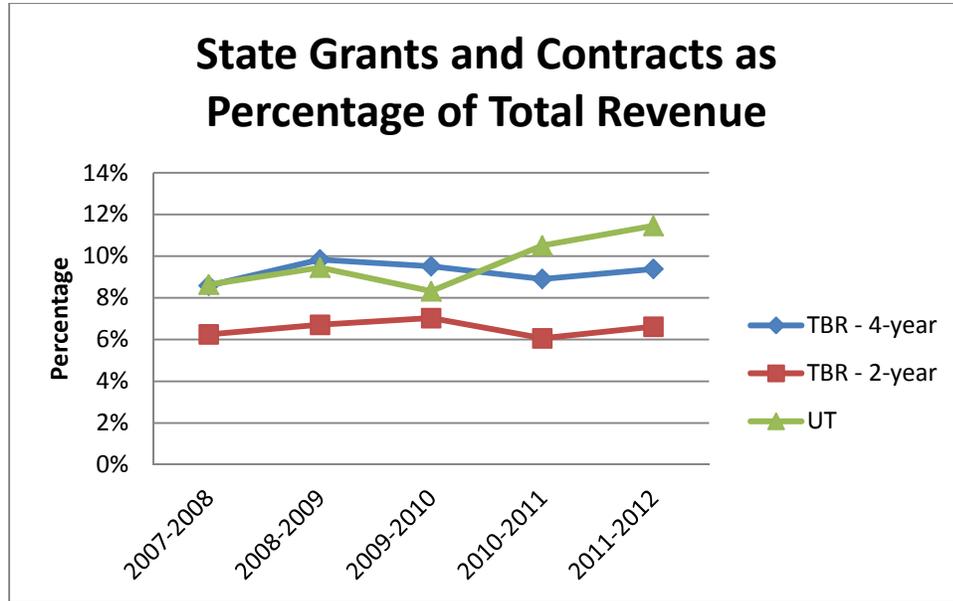
State Grants and Contracts

The state grants and contracts category is made up of lottery-related assistance, such as HOPE scholarships, as well as other grants and awards.

Like federal funding, both the Tennessee Board of Regents and University of Tennessee systems have seen significant increases in state grant funding since 2008.



State Grants and Contracts as a Percentage of Total Revenue – State grants and contracts as a percentage of total revenue fluctuated most for the UT system with a significant decrease in fiscal year 2010 and a rebound in 2011 and 2012. For the TBR institutions, state grants and contracts as a percentage of total revenue have remained relatively the same.



The Division of Postsecondary School Authorization’s complaint-handling process has improved

The 2007 performance audit of the Tennessee Higher Education Commission (THEC) produced one finding and three observations related to weaknesses in the complaint-handling process in the Division of Postsecondary School Authorization (DPSA). These weaknesses impaired the division’s ability to effectively document, investigate, and resolve complaint cases. Since the last performance audit, the division has created a complaint-tracking database, established formal policies and procedures, made staffing adjustments, and enhanced the quality of the division’s website. As a result, information surrounding the process is better communicated and potential complainants can more easily file a complaint. Additionally, a sample of complaint files over the last three years revealed a procedurally fair and adequate complaint-handling process with accurate documentation. For the three years reviewed, on average, it took THEC less than five months to review, investigate, and close complaints.

Communication, Policy, and Staff

Section 49-7-2011, *Tennessee Code Annotated*, lists the division’s powers and duties pertaining to complaints. Consistent with these statutory guidelines, the division has developed internal policies and procedures that detail complaint intake and processing; complaint file creation; student and institution notification; and final closure and appeals. The division’s website also contains a downloadable complaint form with instructions. The complaint intake staff includes three attorneys and one paralegal who serves as the primary contact and is

responsible for entering complaints into the database. Complainants may call, write, or fax in a complaint. However, only written complaints using the formatted form available on the DPSA’s website are logged into the database as formal complaints. Those complaints that are phoned in are considered “informal” and do not have a corresponding paper file, but when an informal complaint is called in, the complainant is advised that he or she needs to submit the complaint in writing. The flow chart on page 32 summarizes the complaint process as described in the DPSA’s written procedures.

Complaint Tracking Database

Prior to the 2007 performance audit, the division lacked written policies and procedures and managed complaints via paper files only. As a result, documentation problems, data inaccuracy, and complaint tracking difficulties ensued. With the implementation of the electronic database in 2011, the division greatly enhanced the quality, process, and effectiveness of its complaint-handling responsibilities.

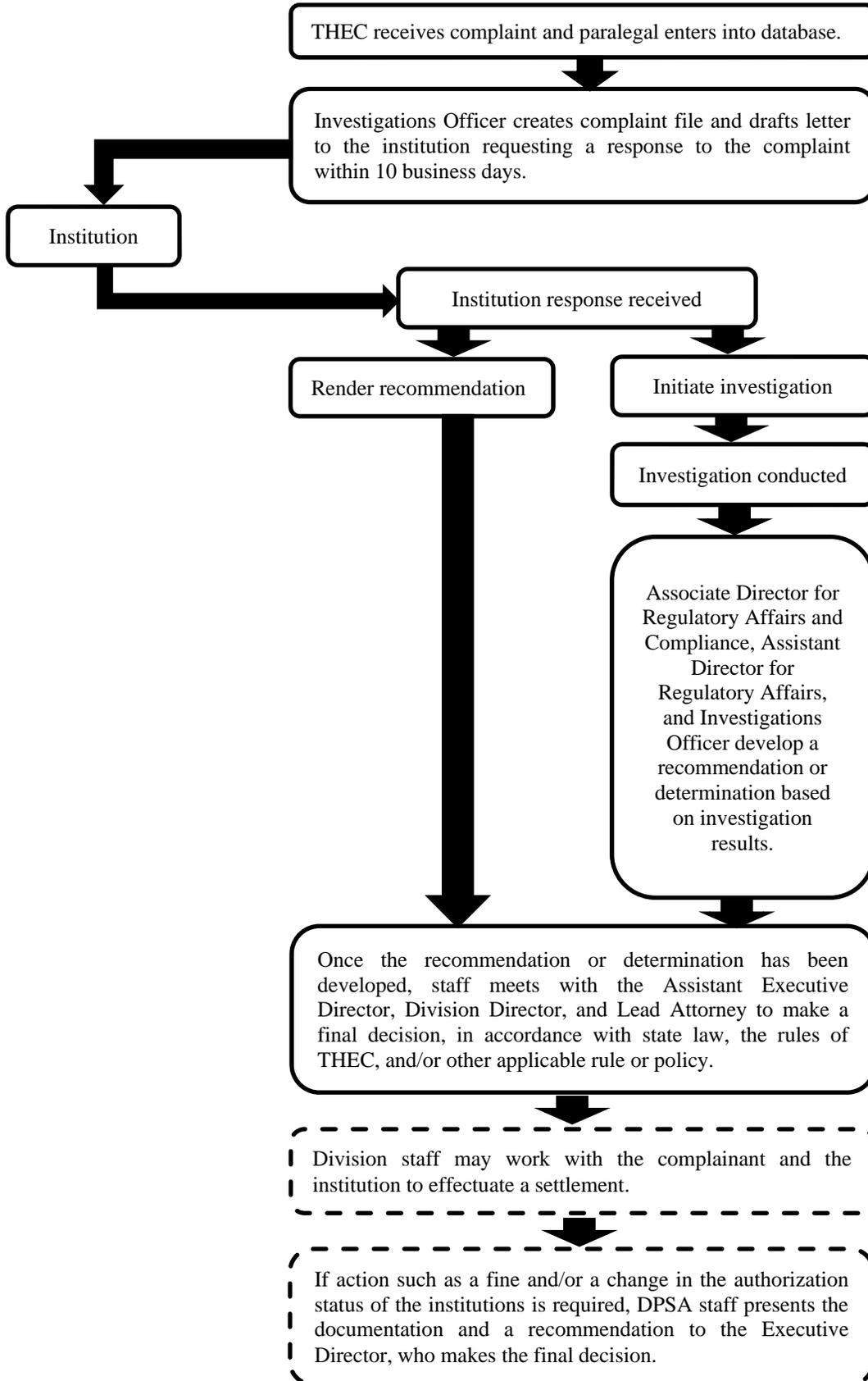
**Division of Postsecondary School Authorization
Complaints Received 2010-2012**

Calendar Year	Formal Complaints*	Total Complaints
2009-2010	56	101
2010-2011	70	122
2011-2012	62	125

*Includes a written complaint and is within the DPSA’s jurisdictional authority.

Auditors randomly selected 60 complaint files from the population of 348 complaints received during the three calendar years 2010-2012 and analyzed the accuracy and consistency between the paper files and the electronic database. Because the division did not start using the electronic database until 2011, the 2010 sample was based on the contents of the paper files only. For years 2011 and 2012, complaint intake and closure dates were consistent or explained, and supporting documentation was complete and accurate. Importantly, the division made efforts to communicate with the complainant; all cases were addressed, investigated, and resolved in a consistent manner; and no cases were closed prematurely or denied due process.

Postsecondary School Authorization Complaint Process



The Davidson County Chancery Court’s decision on *The National College of Business and Technology et al. v. Tennessee Higher Education Commission* invalidated 2008 Division of Postsecondary School Authorization rule changes, prompting the commission to submit new proposed rules to the Department of State

In 2011, the Davidson County Chancery Court invalidated THEC’s 2008 amendments to *Tennessee Comprehensive Rules & Regulations*, 1540-01-02. This decision resolved a 2008 petition for declaratory judgment submitted by the National College of Business and Technology and Remington College (the petitioners). The petitioners claimed that THEC did not adhere to the procedural and substantive requirements of Tennessee’s Uniform Administrative Procedures Act as it related to the Division of Postsecondary School Authorization (DPSA). Subsequently, in a November 15, 2011, opinion, the Attorney General concluded, “When an amendment to an administrative rule is judicially invalidated, then the previously existing rule is reinstated and should be published by the Tennessee Department of State.” Thus, the Chancery Court’s opinion rendered THEC’s June 2000 rules effective. On April 1, 2013, THEC submitted proposed rules to the Department of State, and on June 26, 2013, THEC received a petition for a rule-making hearing. On July 26, 2013, THEC filed a withdrawal of the rule.

The Executive Director of THEC and personnel from the DPSA agree that the rule changes did not create any adverse effects, problems, or other disruptions within the DPSA. The lawsuit was process-related, caused no substantive changes, and created minimal impact on postsecondary institutions.

The 2005 Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR UP) grant is successfully completed, and the 2012 grant has begun

In 2005, the U.S. Department of Education awarded the Tennessee Higher Education Commission (THEC) a six-year, \$3.5 million GEAR UP award for fall 2005 through the 2010-2011 school year. In 2012, THEC received an additional seven-year, \$29.5 million grant award to serve a cohort of 7,500 students in the class of 2018, along with 5,000 graduating seniors each year through 2019.

GEAR UP is a discretionary grant program designed to increase the number of low-income students who are prepared to enter and succeed in postsecondary education. GEAR UP offers states grants and partnerships to provide services at high-poverty middle and high schools. GEAR UP funds are also used to provide college scholarships to low-income students.

2005 GEAR UP Grant Success

Tennessee’s 2005 GEAR UP project was designed to promote student achievement and enhance awareness of the need to expand access to postsecondary education statewide. The goals of the program aimed to (1) increase the academic performance and preparation of students for postsecondary education; (2) increase high school graduation rates and transition rates to postsecondary education; and (3) increase education expectations and aspirations for students and their families.

The 2005 GEAR UP program was a single cohort program, for a group of students in the seventh grade, and continued working with that group of students through high school. The grant provided for an additional annual cohort of 11th and 12th graders.

The GEAR UP program also contained a scholarship component, known as the Bridge Incentive Award, offered to all graduating seniors in a GEAR UP participating county who would attend any higher education institution in Tennessee that accepted lottery scholarships. Students were eligible for the one-time payment of \$750 that was divided into two payments for the students' first fall and spring semesters.

The program was implemented through a two-tiered project design—statewide and to students in nine participating counties: Campbell, Cocke, Grundy, Hardeman, Johnson, Lake, Meigs, Union, and Wayne. THEC selected the counties based on an Educational Needs Index, which included educational, economic, growth, market, and population factors.

Participation in the GEAR UP program required THEC to submit an *Annual Performance Report* to the U.S. Department of Education. According to THEC's final performance report, the program served 47 middle and high schools. In the 9 counties, over 6,164 students received direct services through the grant and over 44,991 students received services through statewide initiatives in the sixth year.

THEC reported the following GEAR UP postsecondary enrollment figures in its final *Annual Performance Report*:

Postsecondary Enrollment of GEAR UP TN counties			
County	2005-06 Postsecondary Enrollment (Baseline)	Class of 2011 Postsecondary Enrollment	Percentage Point Increase
Campbell	51.0%	55.8%	4.8%
Cocke	44.0%	54.6%	10.6%
Grundy	58.3%	39.1%	-19.2%
Hardeman	51.1%	55.4%	4.3%
Johnson	39.2%	74.5%	35.3%
Lake	46.0%	93.6%	47.6%
Meigs	40.0%	58.1%	18.1%
Union	39.0%	64.7%	25.7%
Wayne	50.0%	57.4%	7.4%
County Average	46.9%	57.6%	10.7%

According to the figures provided above, the GEAR UP TN class of 2011 cohort students enrolled in postsecondary education at a rate of 57.6%, an increase of 10.7 percentage points over the 46.9% postsecondary enrollment rate at the beginning of the project in 2005-06.

THEC's final *Annual Performance Report* stated that this is the highest average rate of postsecondary attendance in the history of the GEAR UP TN direct-service counties.

Every GEAR UP county experienced an increase in postsecondary enrollment from the beginning of the program to the end, except for Grundy County. According to THEC, the decrease in postsecondary enrollment for Grundy County was attributable to consistent turnover and poor quality site coordinators, who were employees of the school district.

2012 GEAR UP Grant

In 2012, the U.S. Department of Education awarded Tennessee \$29.5 million to implement GEAR UP TN to a new cohort of students over the next seven years. The grant will provide Tennessee over \$4.2 million in resources annually to devote to college access services.

According to THEC, the 2012 grant contractually required GEAR UP sites to receive approval from THEC to hire site coordinators to reduce the risk of poor GEAR UP county performance due to personnel issues. Additionally, THEC asserts that GEAR UP regional coordinators visit GEAR UP sites to assist with project implementation and to conduct compliance checks.

GEAR UP TN will follow a cohort model, providing services to all cohort students starting in the seventh grade and continuing through their first year of postsecondary education, working with community-based collaboratives in 15 counties across the state. The amount of funding for each GEAR UP TN site is based on the size of the service area, the number of students served, the proposed program, and resources needed to fully and successfully implement a college access, readiness, and success program. Each collaborative is required to fully match federal funds in the sixth and seventh year of the grant. Counties were chosen through a competitive proposal process requiring the high schools to

- have at least 50% of students who are eligible for free or reduced-price lunch;
- have at least one feeder middle school with at least 50% of students eligible for free or reduced-price lunch; and
- have not participated as a direct-service school in another GEAR UP partnership grant.

Additionally, the applying lead high schools had to meet at least one of the following eligibility requirements:

1. be classified as a priority high school as determined by the Tennessee Department of Education as of spring 2011; or
2. had a fall 2010 or 2011 college-going rate, as determined by THEC, at or below the state average of 56.8 and 57.1%, respectively.

THEC used an external panel selection process to select recipients based on the above criteria and all other proposal requirements. A list of participating counties and total seven-year awards by county is listed below:

County	Total Seven-Year Award
Anderson	\$1,177,312.50
Bradley	\$846,300.00
Campbell	\$984,847.50
Claiborne	\$1,089,270.00
Davidson ¹	\$3,398,492.50
Grainger	\$616,005.00
Hardeman	\$819,000.00
Haywood	\$648,375.00
Henderson	\$796,250.00
Johnson	\$443,625.00
McNairy	\$775,775.00
Robertson	\$534,885.00
Shelby ²	\$1,722,500.00
Union	\$552,630.00
Wayne	\$494,325.00

¹ Metropolitan Nashville Public Schools

² Memphis City Schools (Shelby County Schools as of July 1, 2013)

Each GEAR UP TN collaborative includes at least one priority high school, one middle school, a higher education institution, the local board of education, and at least two community-based partners. Through the collaboratives, GEAR UP TN provides students with mentoring, tutoring, college visits, and financial aid counseling. The program will serve 7,500 students in the class of 2018, along with 5,000 graduating seniors each year through 2019. GEAR UP TN anticipates that it will serve 37,500 students over the next seven years.

The 2005 GEAR UP TN program goals continue as the goals of the 2012 GEAR UP TN program:

1. to increase the academic performance and preparation for postsecondary education for GEAR UP students;
2. to increase the rates of high school graduation and enrollment in postsecondary education for GEAR UP students; and
3. to increase GEAR UP students' and their families' knowledge of postsecondary education options, preparation, and financing.

To achieve these goals, THEC identified the following objectives:

- increase student academic achievement and course completion,

- increase student performance on college entrance exams,
- increase student high school graduation,
- increase student postsecondary participation and success,
- increase student and family educational expectations,
- increase student and family knowledge of and access to financial assistance for postsecondary education,
- increase parent and community engagement in activities associated with student preparation for college, and
- increase educator content-area knowledge and understanding of postsecondary access and success.

The U.S. Department of Education requires submission of an *Annual Performance Report* to evaluate the progress of the program and to determine continuation of the funding. THEC plans to contract with an external evaluator to conduct a seven-year evaluation of the program and to provide annual evaluation reports to equip THEC staff with information about project implementation and student academic outcomes. The final evaluation report will be submitted to the U.S. Department of Education at the end of the project, assessing the project's overall impact. The selection of the third-party evaluator for the GEAR UP TN program is being facilitated through Tennessee's Request for Proposal process.

Tennessee completes year three of the U.S. Department of Education's Race to the Top grant

In 2010, Tennessee was selected as one of two states to receive funding through the U.S. Department of Education's Race to the Top competition. Following the implementation of the American Recovery and Reinvestment Act of 2009, the U.S. Department of Education designed a \$4.35 billion incentive program for achieving major educational reform and improvement. Tennessee's winning bid resulted in the allocation of \$501 million over a period of four years targeted toward five key areas of improvement: Great Teachers and Leaders, Standards and Assessments, Data Systems to Support Instruction, Turning Around Low-Performing Schools, and STEM (Science, Technology, Engineering, and Math) Education. A collaborative effort by the state's major educational stakeholders—including the Tennessee Department of Education, State Board of Education, Tennessee Higher Education Commission, and Governor's Office of State Policy and Planning—has worked to complete the grant's third year of implementation in June 2013, and now enters the fourth and final year of the program.

The Race to the Top initiatives afford an important role for higher education in reaching the goals outlined in the federal school reform grant, and THEC plays a significant part in the successful implementation of those objectives. The THEC Executive Director serves on the First to the Top Advisory Council, and other THEC staff serve in various capacities on the Project Management Oversight Committee, STEM leadership team, and First to the Top Oversight

Team. THEC oversees eight separate projects, with a collective budget of \$20,369,136, that are aimed toward:

- strengthening the ability of K-12 teachers to use Tennessee Value-Added Assessment System data in improving student outcomes,
- improving the quality and quantity of teachers in K-12 education,
- providing accountability in teacher preparation focused on strengthening programs,
- increasing Tennessee's competitiveness in STEM, and
- expanding the College Access Network.

The U.S. Department of Education produces state-specific summary reports based on information gathered from a review process entailing monthly calls, onsite reviews, and annual performance reports generated by each state. The most recent Tennessee report from the U.S. Department of Education for year two of the award (school year 2011-2012) lists recent accomplishments and future challenges. A report on year three has yet to be released.

2011-2012 Year Two Summary Report Accomplishments

- The Tennessee Department of Education's new performance management processes are more productive and timely than those used in year one, and the state's existing divisions are successfully taking on the new roles created by First to the Top.
- The state also created new support structures and enhanced its communication efforts to better address local education agency needs.
- The state made major progress in the implementation of this reform area as evidenced by rigorously recruiting Core Coaches, establishing focused Common Core State Standards training content, and developing mechanisms to engage local educators in the ongoing development of the plan to transition to the standards.
- The state successfully engaged educators in ways to access and use data to improve instruction.
- The Tennessee Department of Education and its partners made strides in developing the P-20 (pre-kindergarten through higher education) longitudinal data system in year two.
- The state implemented its teacher and leader pathway programs with fidelity and achieved high retention rates, as well as designed and implemented a process for monitoring the progress of each program.
- Tennessee also successfully implemented its Tennessee Educator Acceleration Model in every local education agency and school in year two.
- The state made progress on several projects in this area (turning around the lowest-achieving schools) during year two, including significant improvements to the Achievement School District and Tennessee College Access and Success Network after initial timeline delays.

- The state adjusted its accountability structure and specified additional supports for its lowest-achieving schools.
- Tennessee made progress in its implementation of the STEM Hubs and Platform Schools during year two.

THEC's First to the Top Director affirms that the THEC-managed projects are making progress toward full implementation and are in good standing with the U.S. Department of Education. The U.S. Department of Education allows a one-year, no-cost extension on a project-by-project basis. However, no decisions have been made as to which projects will receive an extension, and the Race to the Top contract is still slated to expire in June 2014.

RECOMMENDATIONS

LEGISLATIVE

This performance audit identified an area in which the General Assembly may wish to consider statutory changes to improve the efficiency and effectiveness of the Tennessee Higher Education Commission's operations.

The General Assembly may wish to consider whether transfer pathways should be created for all majors currently offered in Tennessee public higher education institutions as currently required by Section 49-7-202, *Tennessee Code Annotated*, or whether it wishes to seek revision to this section to allow a narrow exception for majors in those fields that, by their nature, cannot feasibly develop transfer pathways.

ADMINISTRATIVE

The Tennessee Higher Education Commission should address the following areas to improve the efficiency and effectiveness of its operations.

1. Management of the Tennessee Higher Education Commission (THEC) should ensure only those users responsible for maintaining the funding formula have the ability to change the data and formulas in the funding formula spreadsheet. In addition, management should implement documented change control procedures to guide staff when they make approved changes to the formula and its supporting data. These change control procedures should include documented management review and approval of changes, system logging of all changes made, and version control. Management should consult with the Office for Information Resources to determine solutions already present in the state's infrastructure that would provide logging and version control over the spreadsheet.
2. As required by law, THEC should be more involved with the Transfer Pathways program. Having complaints from the Tennessee Transfer Pathways website go straight to THEC would ensure THEC remains involved in the process and sees first-hand any problems with the implementation of the pathways programs. Currently, the Tennessee Board of Regents (TBR) and the University of Tennessee (UT) are responsible for a majority of the process, and there seem to be no controls ensuring the program is run consistently and fairly across the two systems.

TBR, along with the UT Board of Trustees and THEC, should ensure that all transfer pathways required by the Complete College Tennessee Act of 2010 are developed as soon as possible, given that they were required by fall 2011.

THEC should work with the UT Board of Trustees and TBR to review the pathways already implemented to ensure that the course requirements listed are correct and that the schools involved in the pathways offer all pathway-required courses. Any issues with the curriculum need to be addressed and updated on the Transfer Pathways website immediately.

Until common course numbering at all Tennessee institutions can be achieved, THEC should work with the TBR and UT school systems to create course equivalency charts for each school. Since courses for the transfer pathways are only guaranteed to transfer as completed associate's degrees or subject blocks, initial focus should be on the 60 hours of general education and pre-major courses. Because equivalency charts should be readily available to students and advisors, THEC and the institutions may want to consider having THEC maintain a master equivalency chart for all state institutions.

APPENDICES

Appendix 1 Title VI and Other Information

At the request of the Government Operations Committee, we compiled information on federal funds received by the Tennessee Higher Education Commission (THEC), results of the Tennessee Human Rights Commission’s Title VI Compliance Program report, and demographic information on THEC board members and staff.

According to the state’s budget documents, THEC received the following federal funds:

Tennessee Higher Education Commission Federal Funding August 2013			
Title	Code	Actual 2011-2012	Estimated 2012-2013
Tennessee Higher Education Commission	332.01	4,459,500	7,134,900
Tennessee Higher Education Commission Grants	332.09	864,100	1,286,900
		\$ 5,323,600	\$ 8,421,800

The Human Rights Commission is responsible for reviewing Title VI Implementation Plans submitted by agencies, including THEC. A plan must contain the following elements:

- an overview of the agency;
- a description of the federal programs or activities;
- organization of the Civil Rights Office and duties of the Civil Rights Coordinator;
- data collection and analysis, including total number of complaints received;
- definition of key terms;
- types of discriminatory practices;
- Limited English Proficiency;
- complaint procedures;
- a compliance review of subrecipients;
- compliance/noncompliance reporting procedures;
- a Title VI training plan;
- public notice and outreach;
- evaluation procedures of Title VI implementation; and
- responsible officials.

According to the Human Rights Commission’s *Tennessee Title VI Compliance Program Report to the Governor and General Assembly*, THEC is in compliance with the guidelines and requirements for fiscal year ending 2012. The implementation plan was filed on time according to the report as well.

The Human Rights Commission’s report also compiles complaint filings across all state agencies. The Human Rights Commission did not receive any complaints filed against THEC between 2011 and 2012.

The breakdown of commission members and staff by title, gender, and ethnicity is detailed below.

Tennessee Higher Education Commission Commission Members by Ethnicity and Gender August 2013				
Title	Gender		Ethnicity	
	Male	Female	Black	White
Board Member	13	2	3	12

Tennessee Higher Education Commission Staff Positions by Ethnicity and Gender August 2013						
Title	Gender		Ethnicity			
	Male	Female	Asian	Black	Other	White
Administrative Assistant 4	1	3	1	3	0	0
Administrative Budget Analyst 3	0	1	0	1	0	0
Administrative Services Assistant 3	0	1	0	0	0	1
Assistant Director for Compliance	1	0	0	0	0	1
Assistant Director for Regulatory Affairs	0	1	0	0	0	1
Assistant Director for College Access Initiatives	0	1	0	0	0	1
Assistant Executive Director for Postsecondary School Authorization	0	1	0	1	0	0
Assistant Executive Director of Academic Affairs	1	0	0	0	0	1
Assistant Executive Director of Policy, Planning, & Research	2	1	0	0	0	3
Assistant Executive Director of Veterans Education	1	0	0	0	0	1
Associate Director of Compliance & Regulatory Affairs	1	1	0	1	0	1

**Tennessee Higher Education Commission
Staff Positions by Ethnicity and Gender
August 2013**

Title	Gender		Ethnicity			
	Male	Female	Asian	Black	Other	White
Associate Director of Student Information Systems	0	1	1	0	0	0
Associate Executive Director of Academic Affairs	0	1	0	1	0	0
Associate Executive Director of Finance & Administration	1	0	0	0	0	1
Associate Executive Director of Strategic Planning & Policy Research	1	0	0	0	0	1
Communications Director	0	1	0	0	0	1
Data Management Specialist	1	0	0	0	0	1
Director of College Access Initiatives	1	0	0	0	0	1
Director of Postsecondary School Authorization & Lead Attorney	0	1	0	0	0	1
Director of Research & Statistical Analysis	1	0	0	1	0	0
Director of Veterans Education	0	1	0	0	0	1
Education & Research Specialist	0	1	0	1	0	0
Educational Specialist 3	2	0	0	0	0	2
Executive Director	1	0	0	0	0	1
Executive Secretary 2	0	1	0	0	0	1
First to the Top Director	0	1	0	0	1	0
Fiscal Director	0	1	0	0	0	1
Fiscal Manager	1	0	0	0	0	1
Fiscal Policy & Facility Analysis Director	0	1	0	0	0	1
General Counsel & Associate Executive Director for Legal & Regulatory Affairs	1	0	0	0	0	1
Graduate Assistant	2	1	0	1	0	2
Information Systems Director	0	1	0	0	0	1
Investigations Officer	0	3	0	2	0	1
Investigative Officer & Lead Auditor	1	0	0	1	0	0
Legal & Administrative Specialist	0	1	0	1	0	0
Lottery Scholarship Analysis Research Director	1	0	0	0	0	1
Operating Officer	1	0	0	0	0	1
Outreach Specialist	1	1	0	0	0	2
Policy, Planning, & Research Analyst	0	1	0	0	0	1

Tennessee Higher Education Commission Staff Positions by Ethnicity and Gender August 2013						
Title	Gender		Ethnicity			
	Male	Female	Asian	Black	Other	White
Postsecondary School Authorization Technical Education Specialist	0	1	0	0	0	1
Program Analyst	4	1	0	1	0	4
Program Coordinator	0	2	0	0	0	2
Regional Coordinator	1	1	0	1	0	1
Research & Database Manager	0	1	0	1	0	0
Student Information Systems Manager	0	1	1	0	0	0
Total	28	35	3	17	1	42

The breakdown of active grants and contracts is detailed below.

College Access Challenge Grant

The purpose of the College Access Challenge Grant Program is to foster partnerships among federal, state, and local governments and philanthropic organizations through matching challenge grants that are aimed at increasing the number of low-income students who are prepared to enter and succeed in postsecondary education. These organizations include

- The Oasis Center, \$1,527,661;
- Public Education Foundation, \$1,089,000;
- Southwest Tennessee Development District, \$1,540,101;
- Walker and Associates, \$2,040,000;
- XAP Corporation, \$2,392,192; and
- Tennessee College Access and Success Network, \$2,298,000.

GEAR UP

Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR UP) is a discretionary grant program designed to increase the number of low-income students who are prepared to enter and succeed in postsecondary education. GEAR UP provides grants to states and partnerships to provide services at high-poverty middle and high schools. GEAR UP funds are also used to provide college scholarships to low-income students. School districts that have been affected by the GEAR UP grant include

- Anderson County Schools, \$1,177,313;
- Memphis City Schools (Shelby County Schools, as of July 1, 2013), \$1,722,500;
- Metropolitan Nashville Public Schools, \$3,398,493; and

- Claiborne County School District, \$1,089,270.

First to the Top Grant

At the heart of improving student achievement is a focus on three main student performance goals: young students' academic readiness; high school graduates' readiness for college and careers; and higher rates of graduates enrolling and succeeding in postsecondary education. Amongst these initiatives, Tennessee has a renewed focus on developing and improving great teachers and leaders in Tennessee classrooms. Tennessee's First to the Top plan has given the state unique resources and financial opportunities, placing renewed focus on the classroom teacher and a more dedicated focus on encouraging student achievement. Universities that have received the First to the Top grant include

- Lipscomb University, \$1,199,880;
- University of Memphis, \$1,730,416;
- University of Tennessee Chattanooga, \$1,714,707; and
- Vanderbilt University, \$3,180,000.

Other Contracts

- Southern Regional Education Board Programs Medicine, Dentistry, and Optometry, \$1,354,952 - Grant contract for the provision of the development and maintenance of regional educational services and schools in the Southern states in the professional, technological, scientific, literary and other fields, so as to provide greater educational advantages and facilities for the citizens of the several states who reside within the region.
- SAS Institute, Inc. \$1,100,000 - Fee-for-Service contract for the provision of developing learning modules for Tennessee Value-Added Assessment System integration into pre-service teacher training.

Appendix 2 Performance Measures Information

As stated in the Tennessee Governmental Accountability Act of 2002, “accountability in program performance is vital to effective and efficient delivery of governmental services, and to maintain public confidence and trust in government.” In accordance with this act, all executive-branch agencies are required to submit annually to the Department of Finance and Administration a strategic plan and program performance measures. The department publishes the resulting information in two volumes: *Agency Strategic Plans: Volume 1 - Five-Year Strategic Plans* and *Volume 2 - Program Performance Measures*. Agencies were required to begin submitting performance-based budget requests according to a schedule developed by the department, beginning with three agencies in fiscal year 2005, with all executive-branch agencies included no later than fiscal year 2012. The Tennessee Higher Education Commission (THEC) began submitting performance-based budget requests effective for fiscal year 2012. In April 2013, the Tennessee Governmental Accountability Act of 2013 changed the state’s process for developing, reporting, and monitoring performance measures; however, higher education entities, including THEC, were exempted from this process.

Detailed below are THEC’s performance standards and performance measures, as reported in the September 2012 *Volume 2 - Program Performance Measures*. Also reported below is a description of the agency’s processes for (1) identifying/developing the standards and measures; (2) collecting the data used in the measures; and (3) ensuring that the standards and measures reported are appropriate and that the data are accurate.

Program: Tennessee Higher Education Commission

Performance Standard 1: Recommend operating, capital outlay, and capital maintenance appropriations for colleges, universities, technology centers, and non-formula higher education entities to the Governor within five working days of the THEC’s November meeting.

Performance Measure 1: Number of business days after the THEC’s November meeting recommendations are made.

Actual (FY 2011-2012)	Estimate (FY 2012-2013)	Target (FY 2013-2014)
1	1	1

This performance standard measures the efficiency of the commission’s appropriation recommendation process. Specifically, this standard demonstrates how quickly the recommendations are delivered to the Governor and the Commissioner of Finance and Administration. The commission staff and members compile, present, approve, and deliver appropriation recommendations to the Governor and the Commissioner of Finance and Administration. The Chief Fiscal Officer counts the days between the commission’s approval meeting and the presentation of appropriation recommendations to the Governor and Finance and Administration Commissioner.

Program: Contract Education

Performance Standard 2: Increase or maintain the number of Diversity in Teaching Program graduates that intend to become Tennessee teachers.

Performance Measure 2: Number of students trained through the Diversity in Teaching Program that intend to become teachers.

Actual (FY 2011-2012)	Estimate (FY 2012-2013)	Target (FY 2013-2014)
46	45	45

This performance standard determines program effectiveness in high-need school districts. This standard is measured through program enrollment. To obtain this data, the Diversity in Teaching Program Manager contacts the project manager at each awarded college or university to request the headcount of students currently enrolled in the program. The program occurs at both the undergraduate and graduate level. These headcounts are transferred to a master list by the Diversity in Teaching Program Manager. The calculation is a simple summation of the headcounts in the master list.

Program: THEC Grants

Performance Standard 3: Execute the Improving Teacher Quality grant contracts with colleges, universities, and local education agencies to conduct workshops for teachers.

Performance Measure 3: Number of teachers and principals trained through the Improving Teacher Quality grants.

Actual (FY 2011-2012)	Estimate (FY 2012-2013)	Target (FY 2013-2014)
589	600	600

This performance standard determines how many teachers and principals are reached with Improving Teacher Quality program funds. This standard is measured through teacher and principal participation in professional development events paid for by the program. To obtain participation data, the Improving Teacher Quality Program Manager contacts each awarded college or university to request the headcount of teachers and principals that have participated in the professional development events at their respective institution. Postsecondary institutions track this information through workshop rosters, sign-in sheets, or other attendance documents. The Improving Teacher Quality Program Manager transfers headcounts from each institution to a master listing. The calculation is a simple summation of the headcounts in the master listing.

Program: THEC Grants

Performance Standard 4: Maintain the number of Harold Love Service Awards given to faculty or students in higher education who provide outstanding public service to the community.

Performance Measure 4: Number of Harold Love Service Awards given.

Actual (FY 2011-2012)	Estimate (FY 2012-2013)	Target (FY 2013-2014)
10	10	10

This performance standard monitors the number of Harold Love Service awards disbursed by the corporation. Legislators set the award parameters under *Tennessee Code Annotated*, Sections 49-7-208 and 49-7-209. The corporation's Chief Financial Officer counts the number of award payments made in Edison to determine the calculation.

Program: Centers of Excellence

Performance Standard 5: Distribute funds provided for the Centers of Excellence.

Performance Measure 5: Number of days after the beginning of the quarter Centers of Excellence funds are distributed.

Actual (FY 2011-2012)	Estimate (FY 2012-2013)	Target (FY 2013-2014)
30	30	30

This performance standard determines efficiency of the distribution process to Centers of Excellence sites. Specifically, the standard measures how quickly program funds are distributed to the University of Tennessee and Tennessee Board of Regents after the start of each quarter each year. The Chief Fiscal Officer reviews the days from the start of each quarter to the date the funds are disbursed to each agency.

Program: Campus Centers of Emphasis

Performance Standard 6: Distribute funds provided for the Centers of Emphasis.

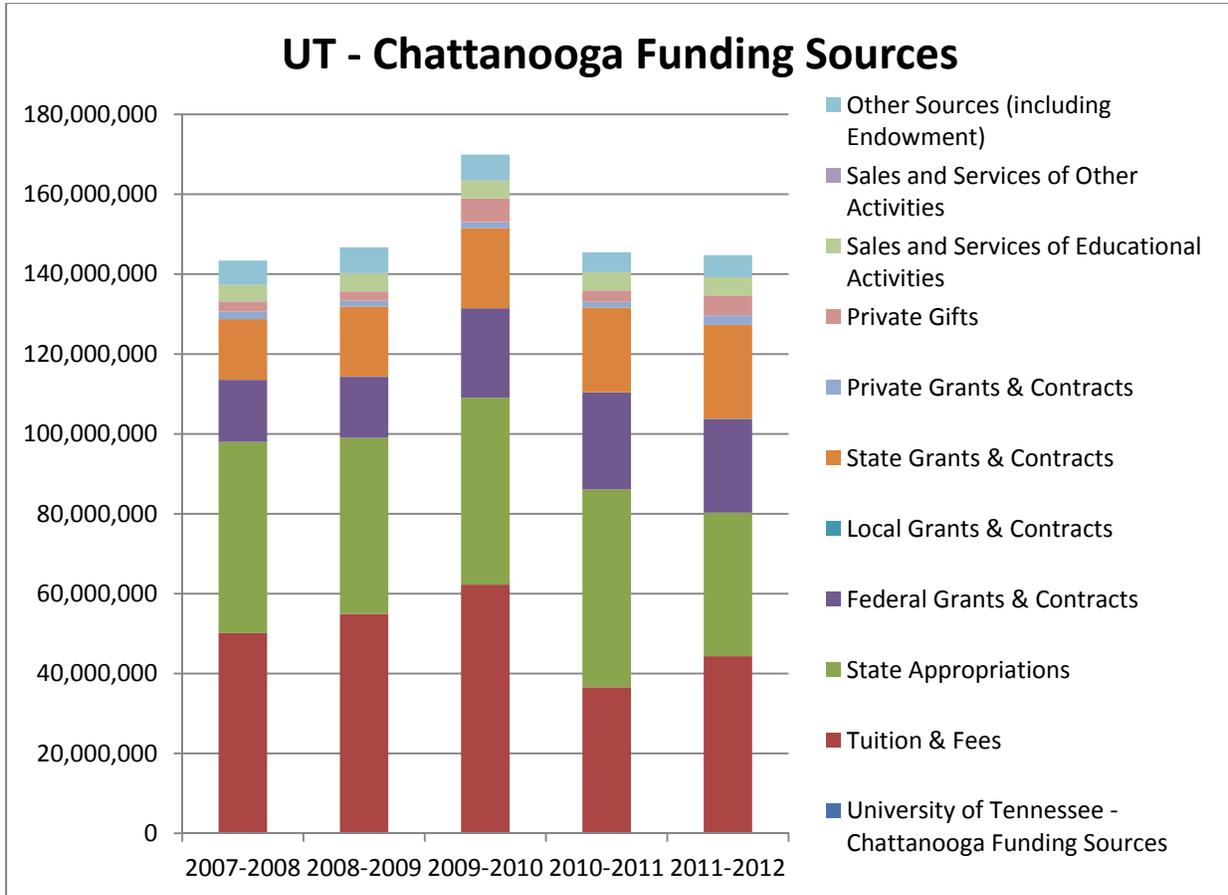
Performance Measure 6: Number of days after the beginning of the quarter Centers of Emphasis funds are distributed.

Actual (FY 2011-2012)	Estimate (FY 2012-2013)	Target (FY 2013-2014)
30	30	30

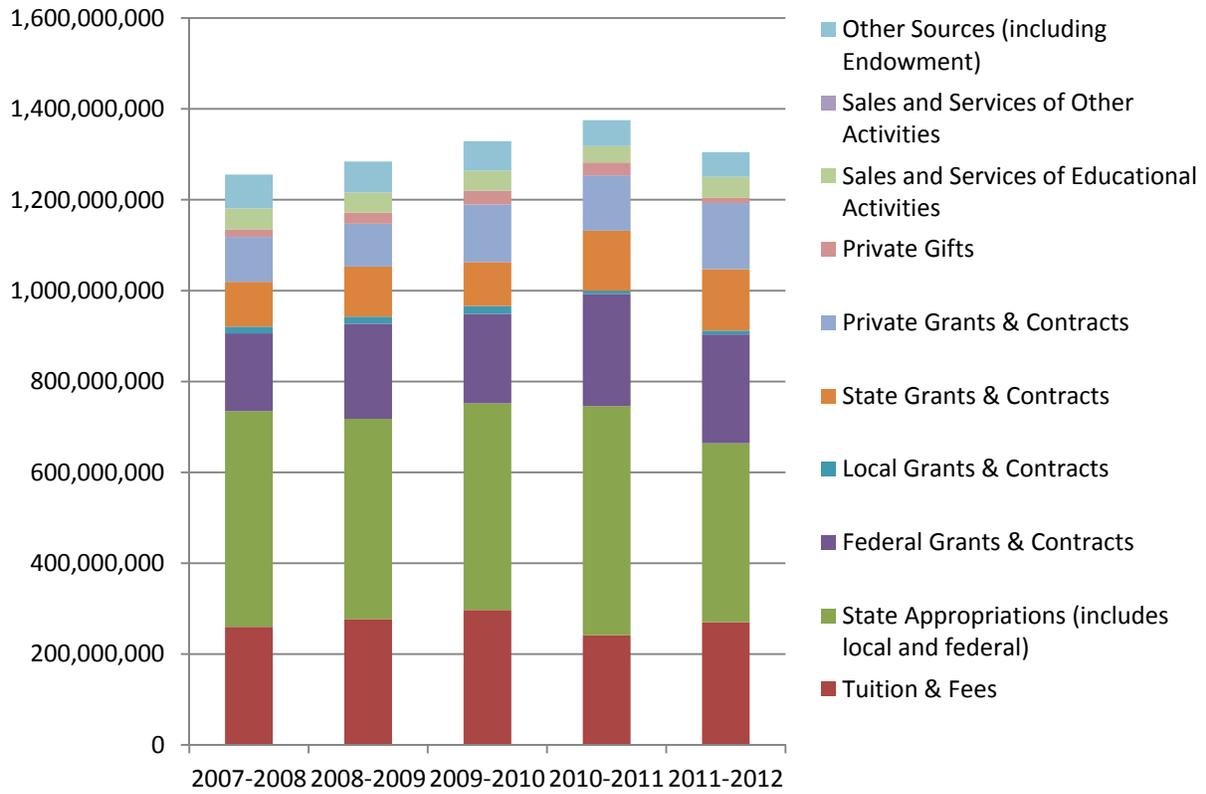
This performance standard determines efficiency of the distribution process to Campus Centers of Emphasis. Specifically, the standard measures how quickly program funds can be distributed to the Tennessee Board of Regents after the start of every quarter each year. The Chief Fiscal Officer counts the days from the start of each quarter to the date the funds are disbursed to the agency. An average is taken across all quarters for the final calculation.

Appendix 3 Funding of State Community Colleges and Universities

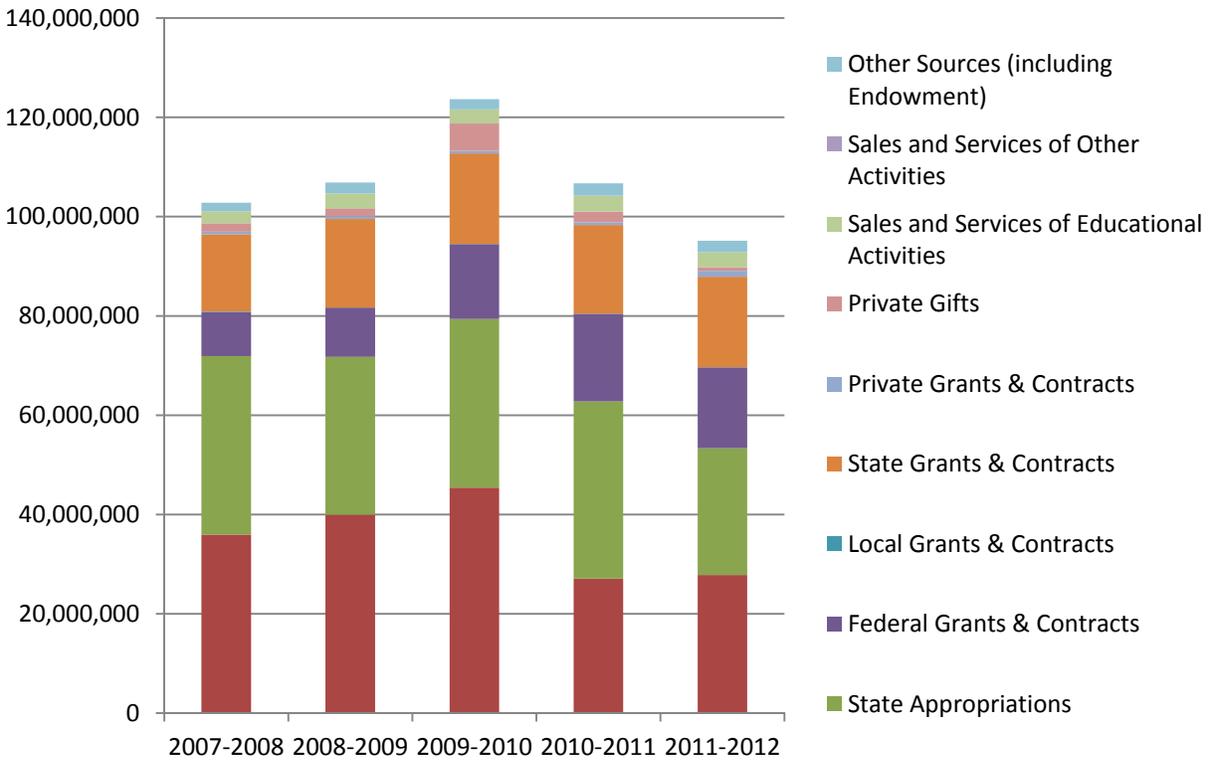
The purpose of this appendix is to provide information on funding of the state community colleges and four-year universities. Each state community college and university's revenue funding sources (including graduate programs) are shown in the bar charts below. We obtained this information from state financial audits for fiscal years 2008-2012. Analysis of the major funding sources by the Tennessee Board of Regents and the University of Tennessee overall is included in the body of our report.



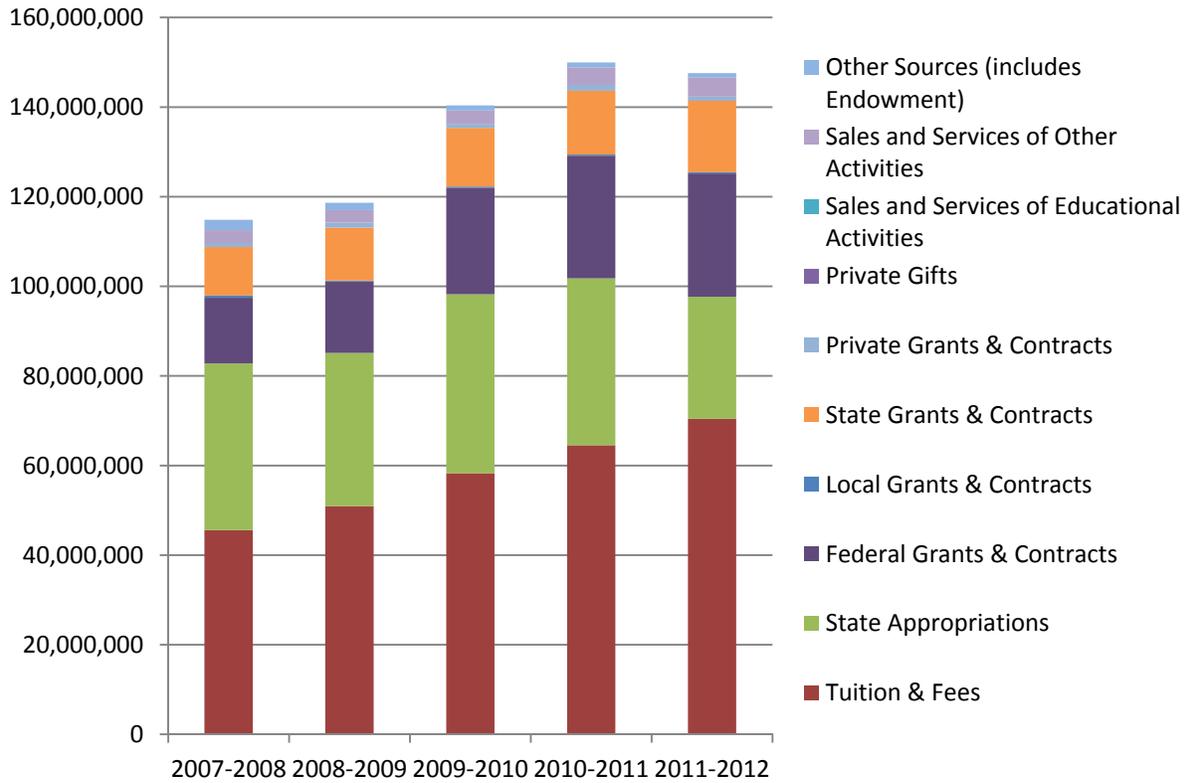
UT - Knoxville Funding Sources



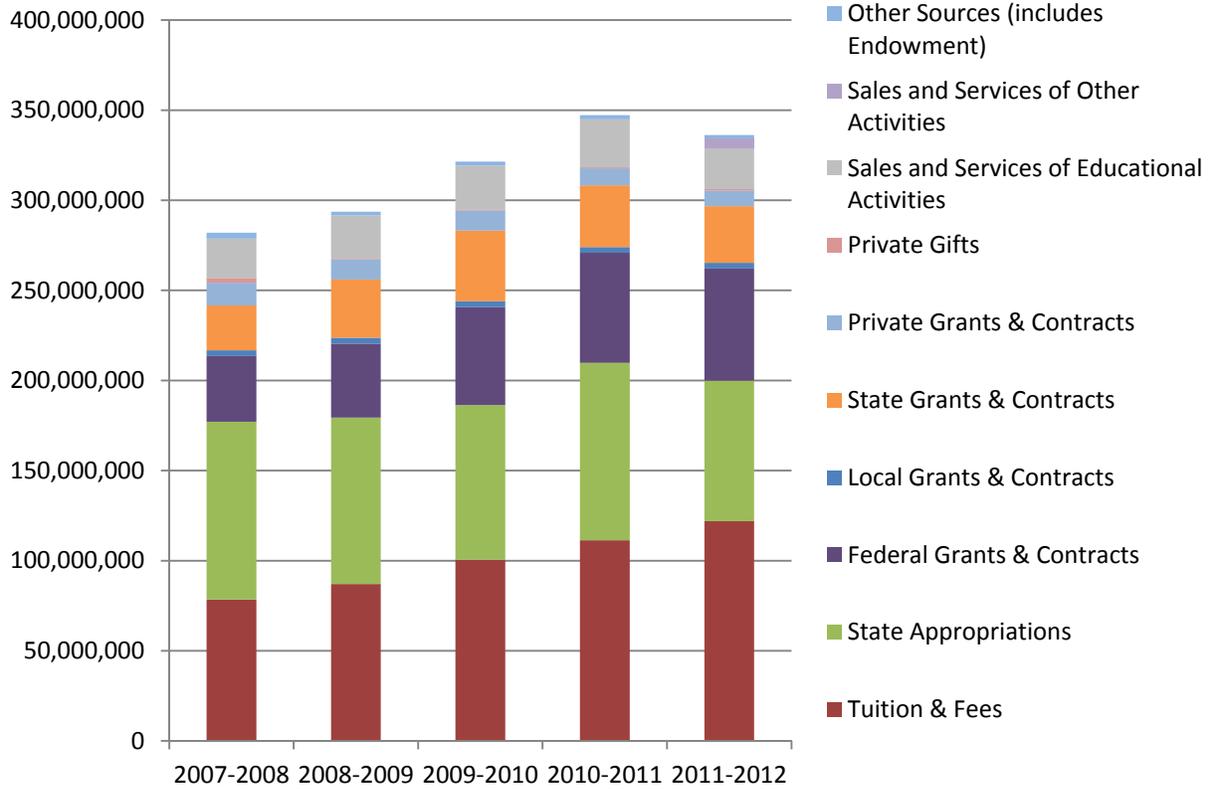
UT - Martin Funding Sources



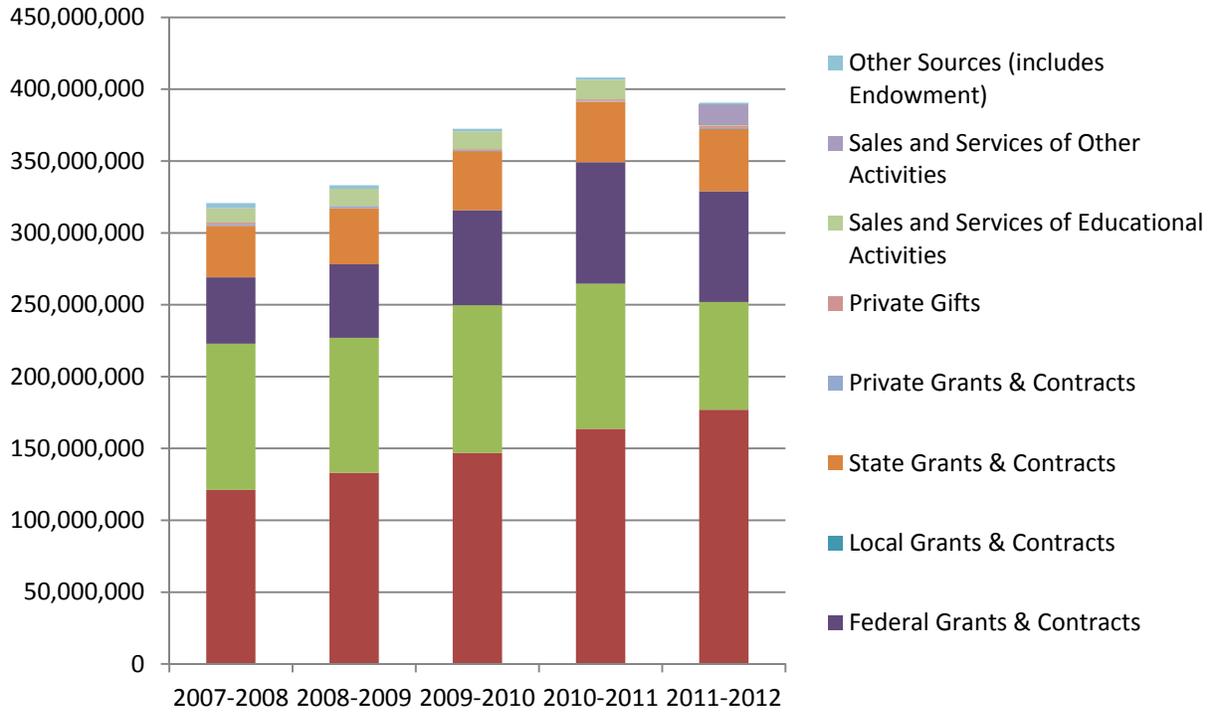
Austin Peay State University Funding Sources



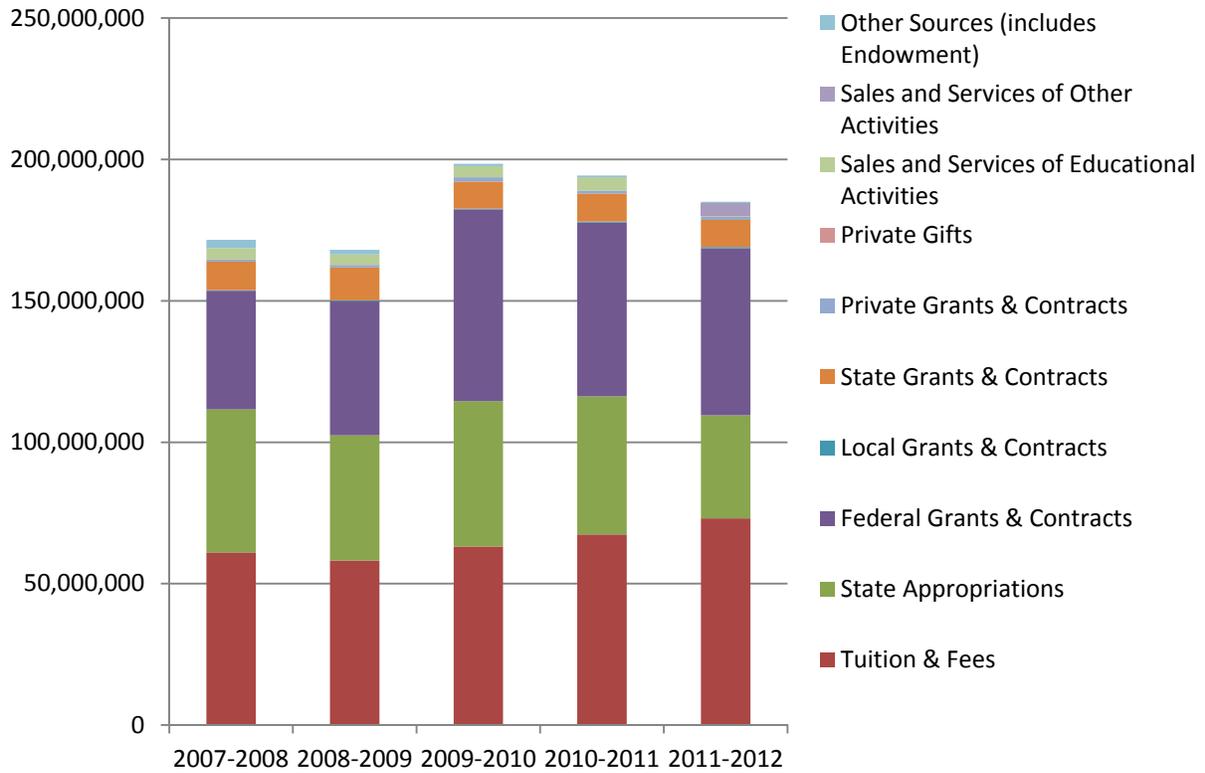
East Tennessee State University Funding Sources



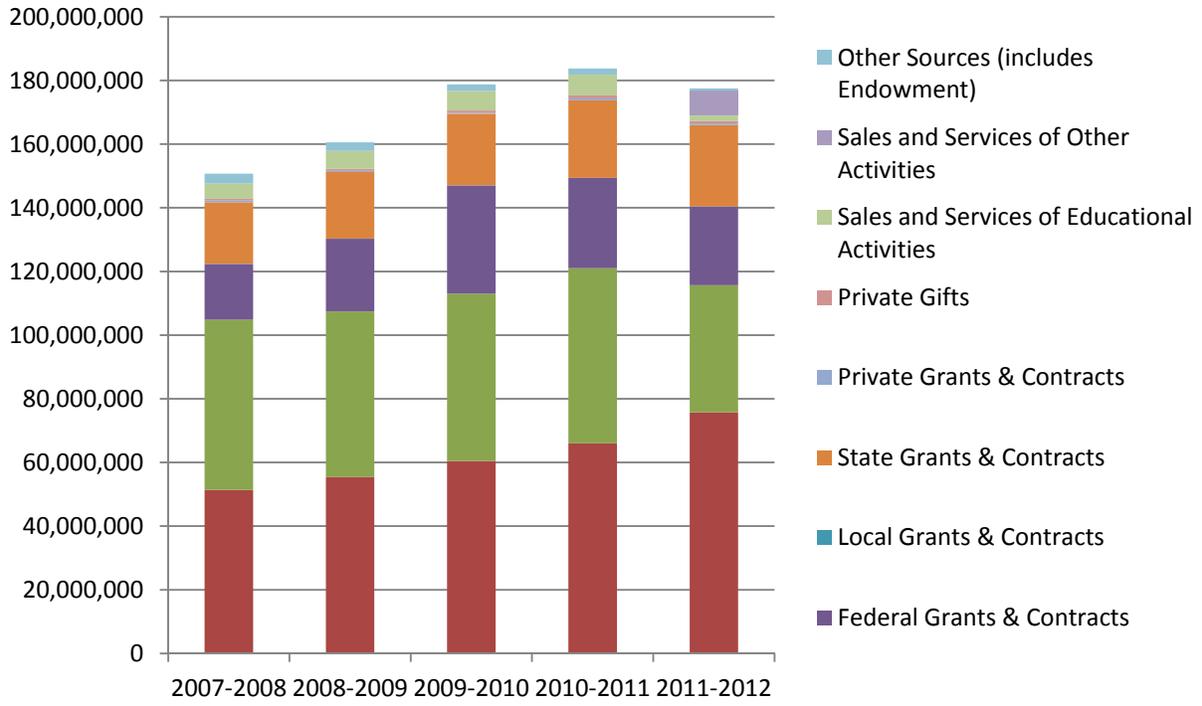
Middle Tennessee State University Funding Sources



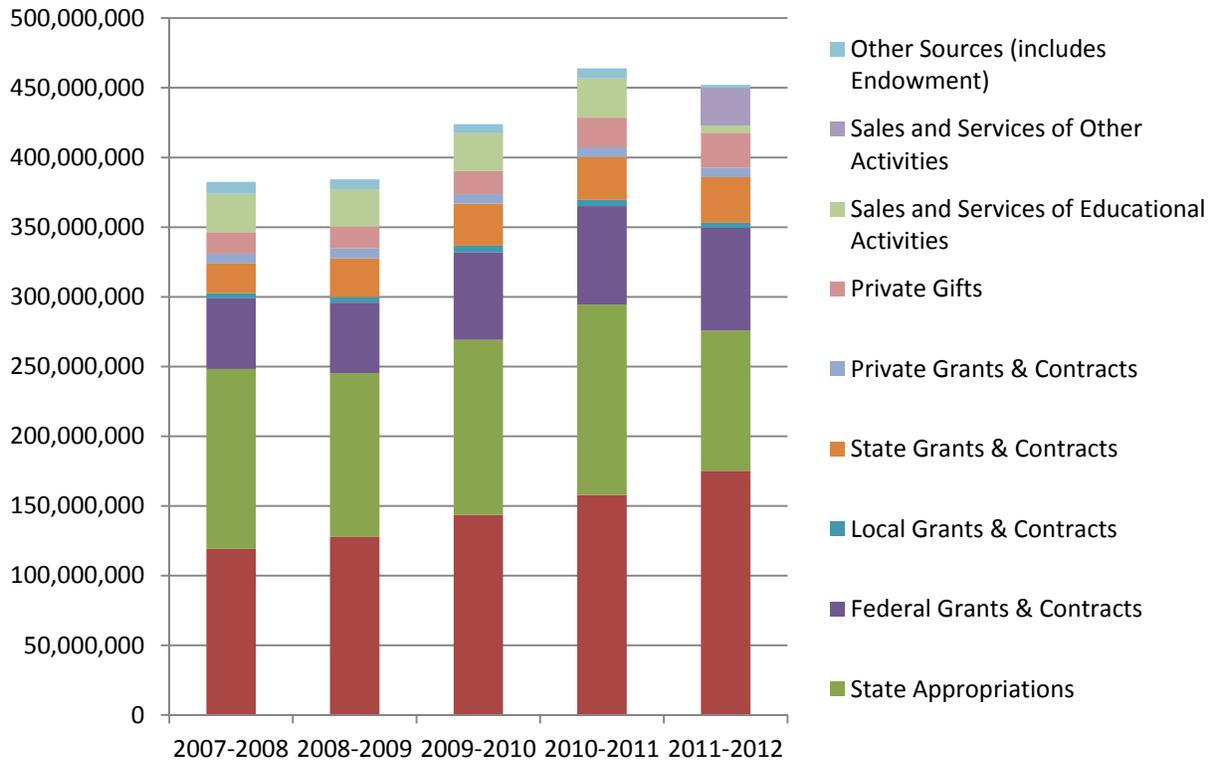
Tennessee State University Funding Sources



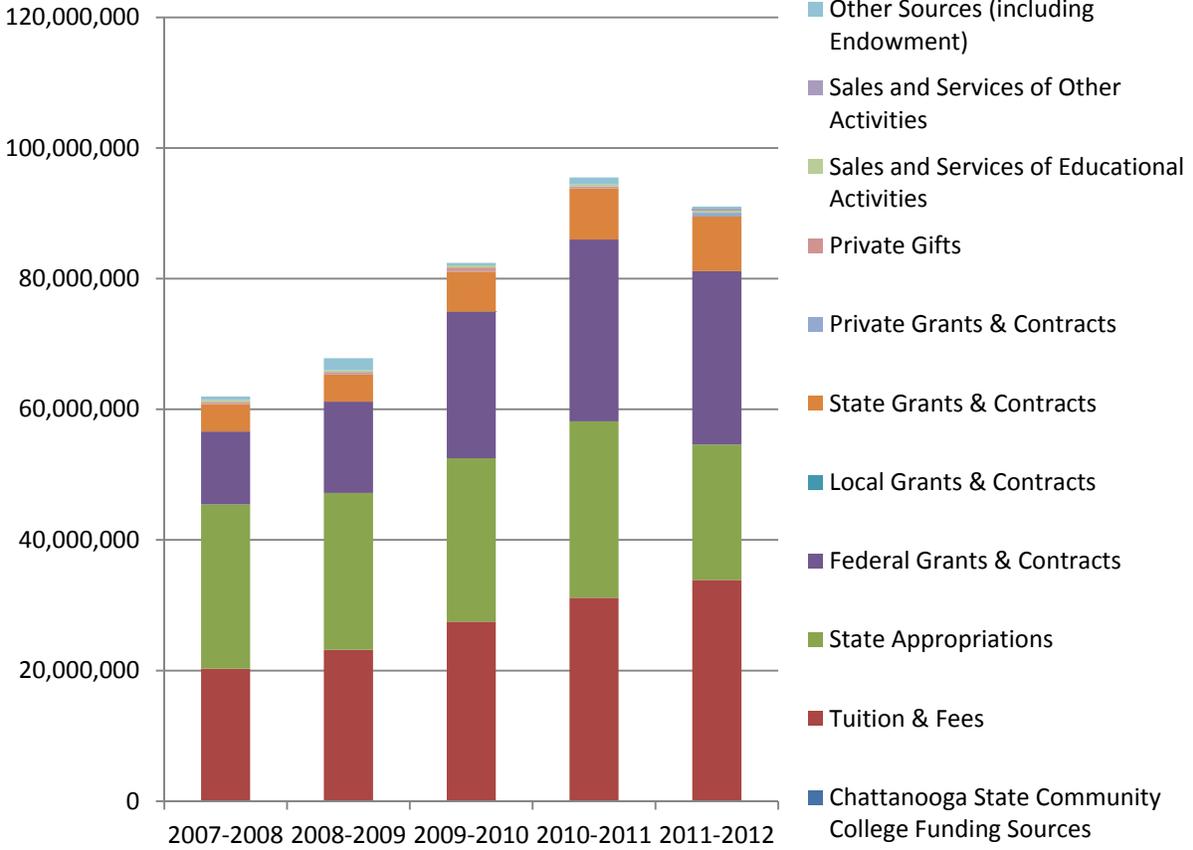
Tennessee Technological University Funding Sources



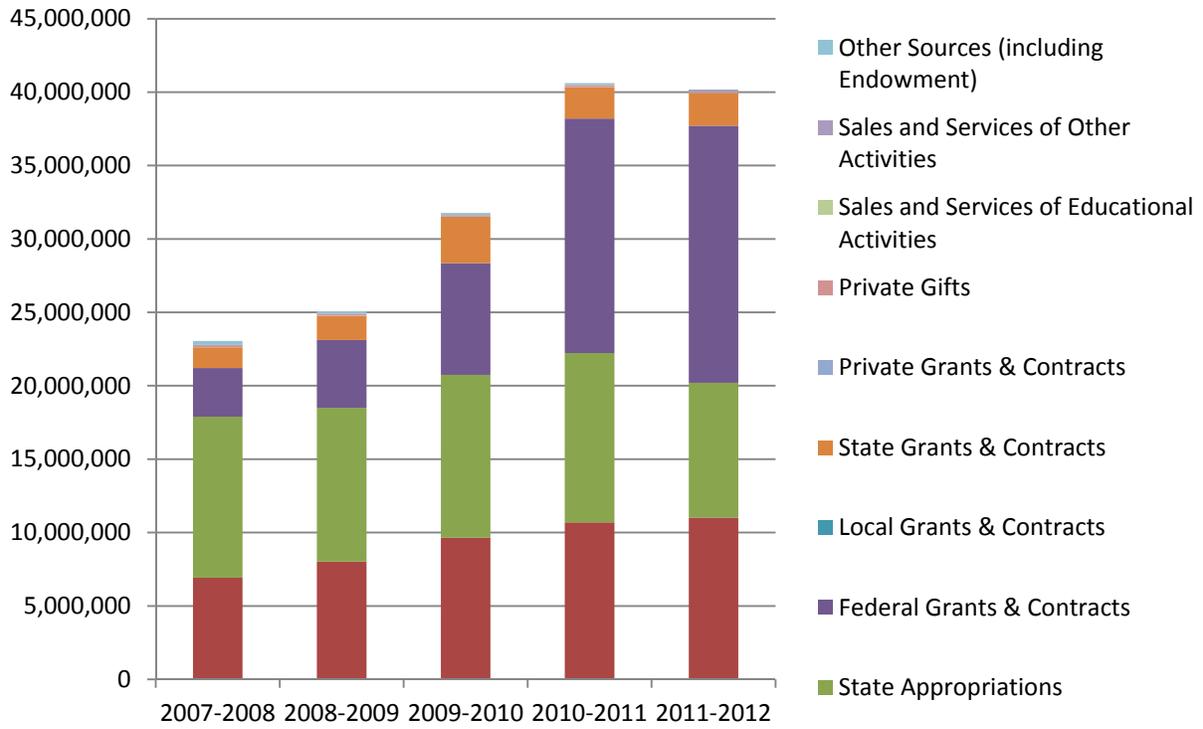
University of Memphis Funding Sources



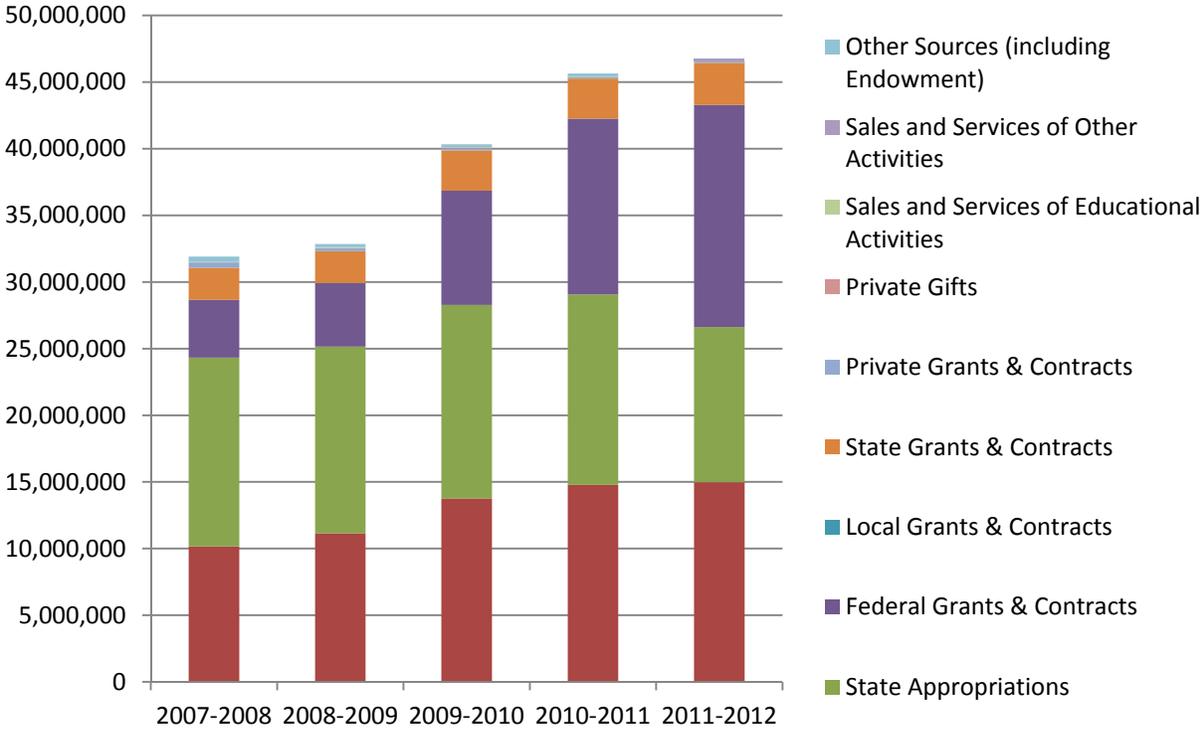
Chattanooga State Community College Funding Sources



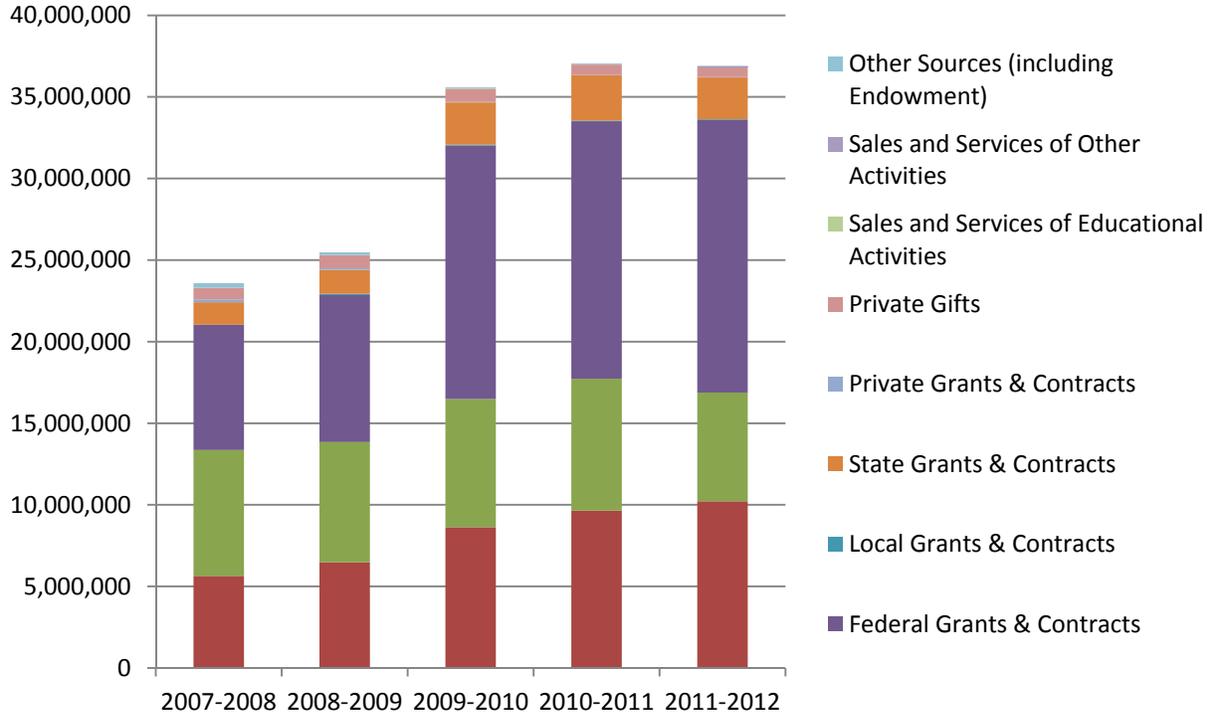
Cleveland State Community College Funding Sources



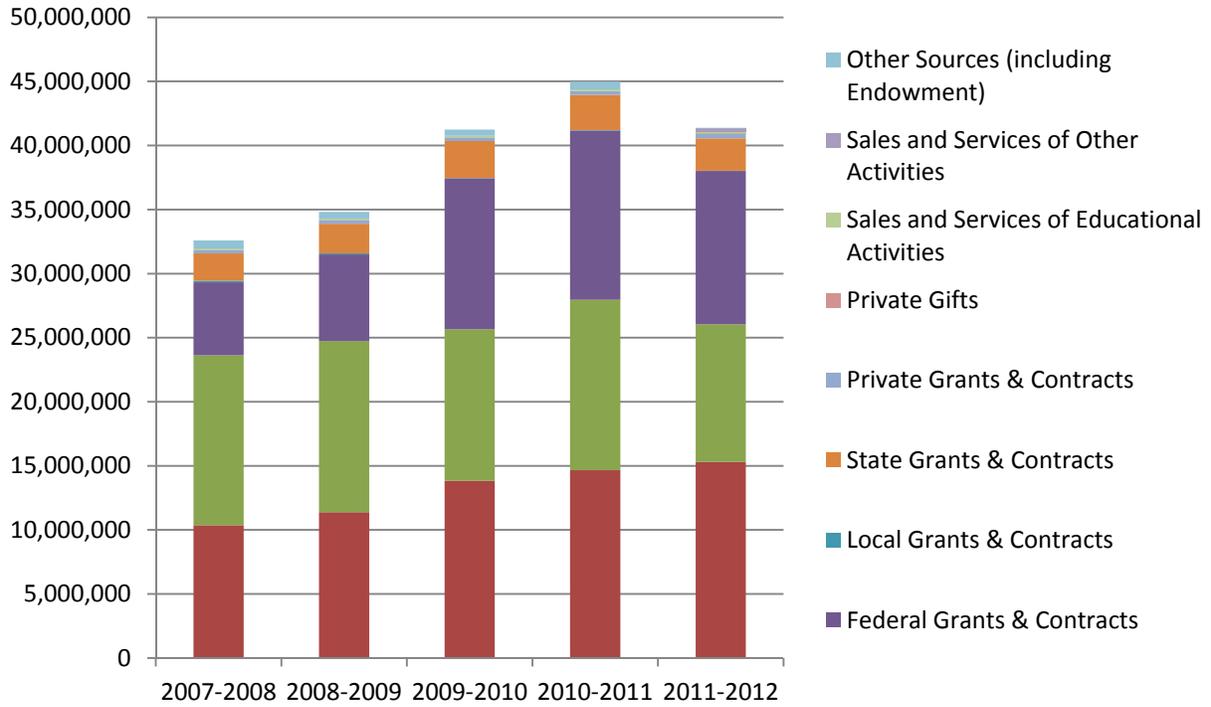
Columbia State Community College Funding Sources



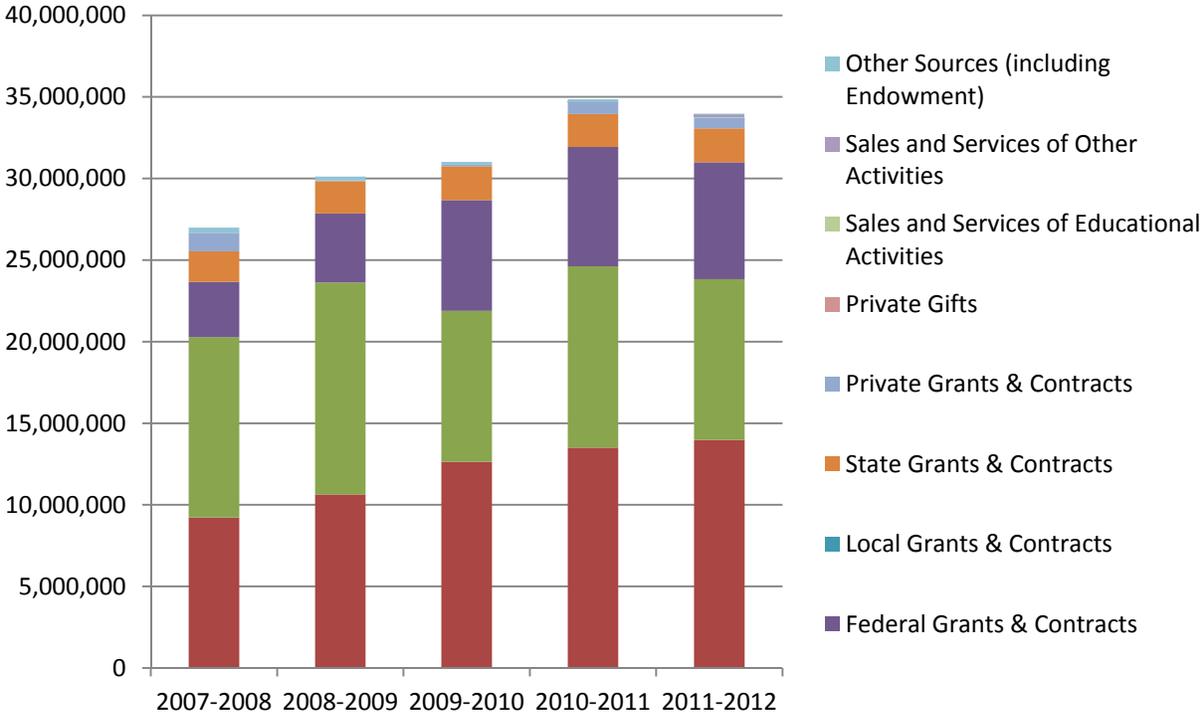
Dyersburg State Community College Funding Sources



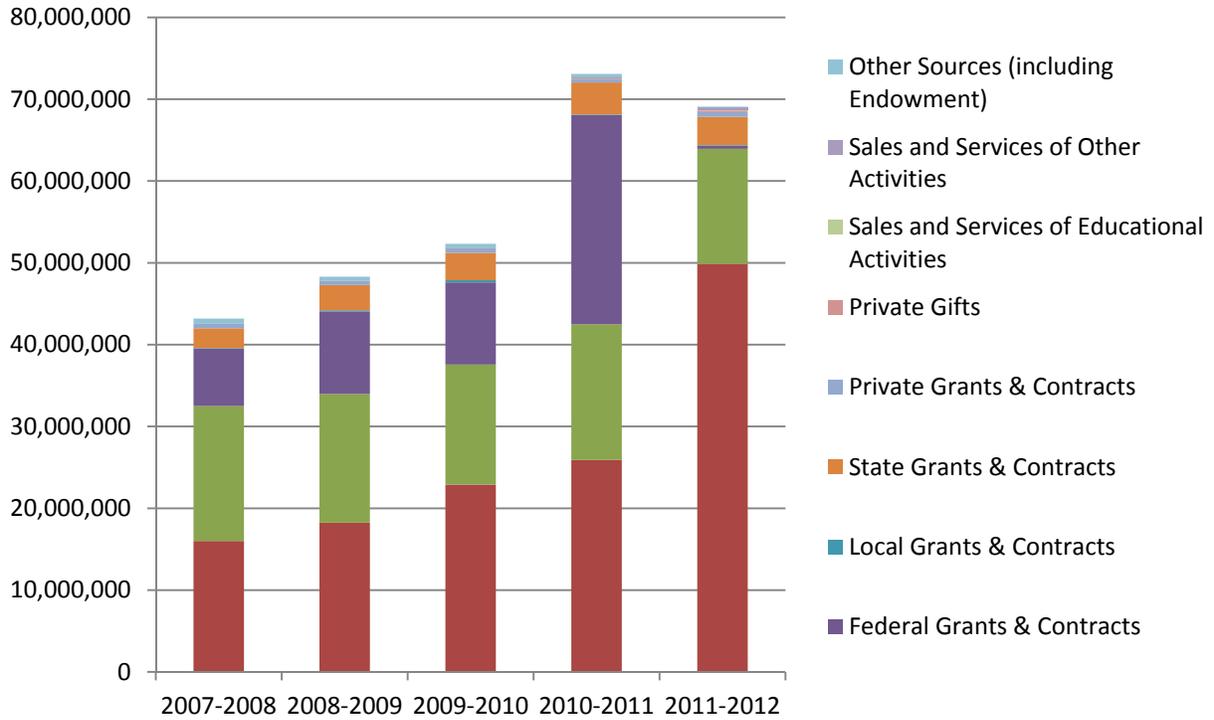
Jackson State Community College Funding Sources



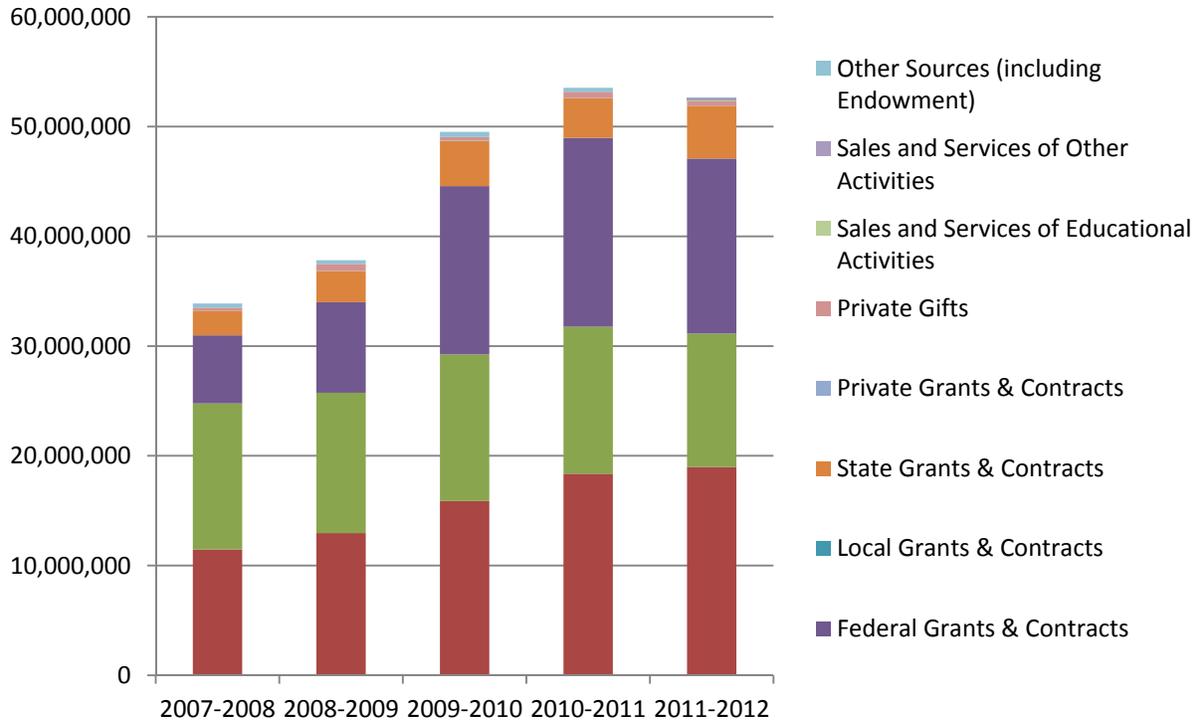
Motlow State Community College Funding Sources



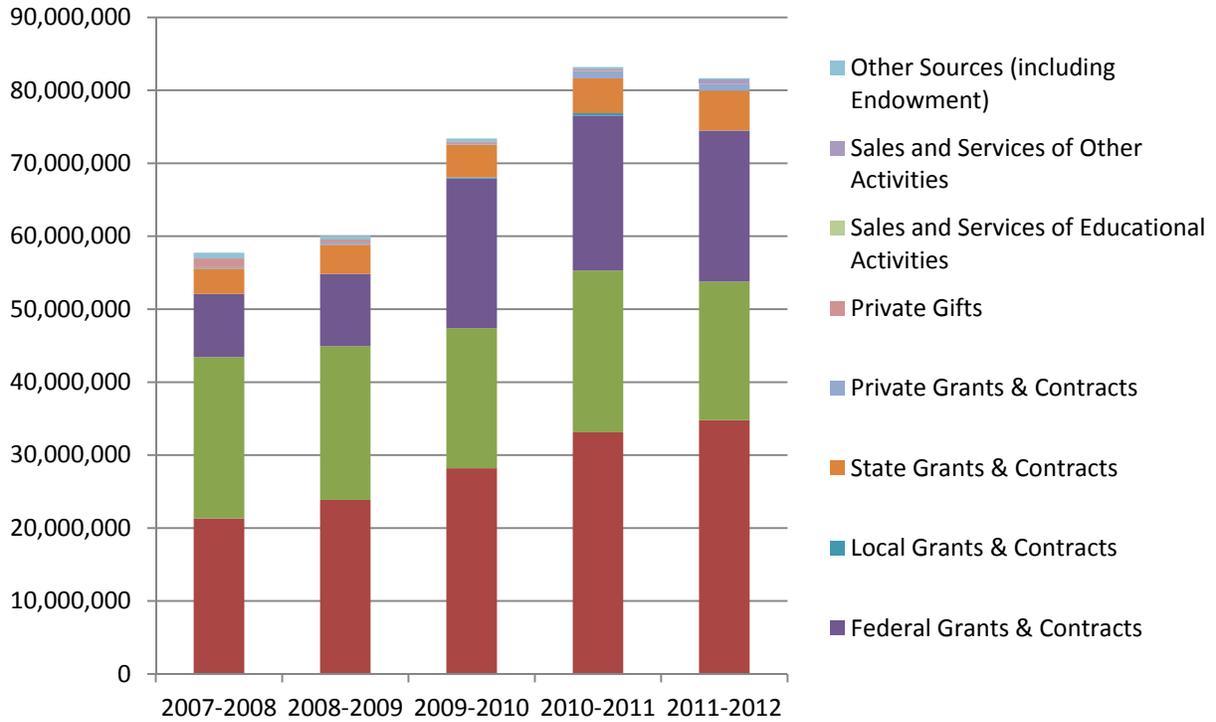
Nashville State Community College Funding Sources



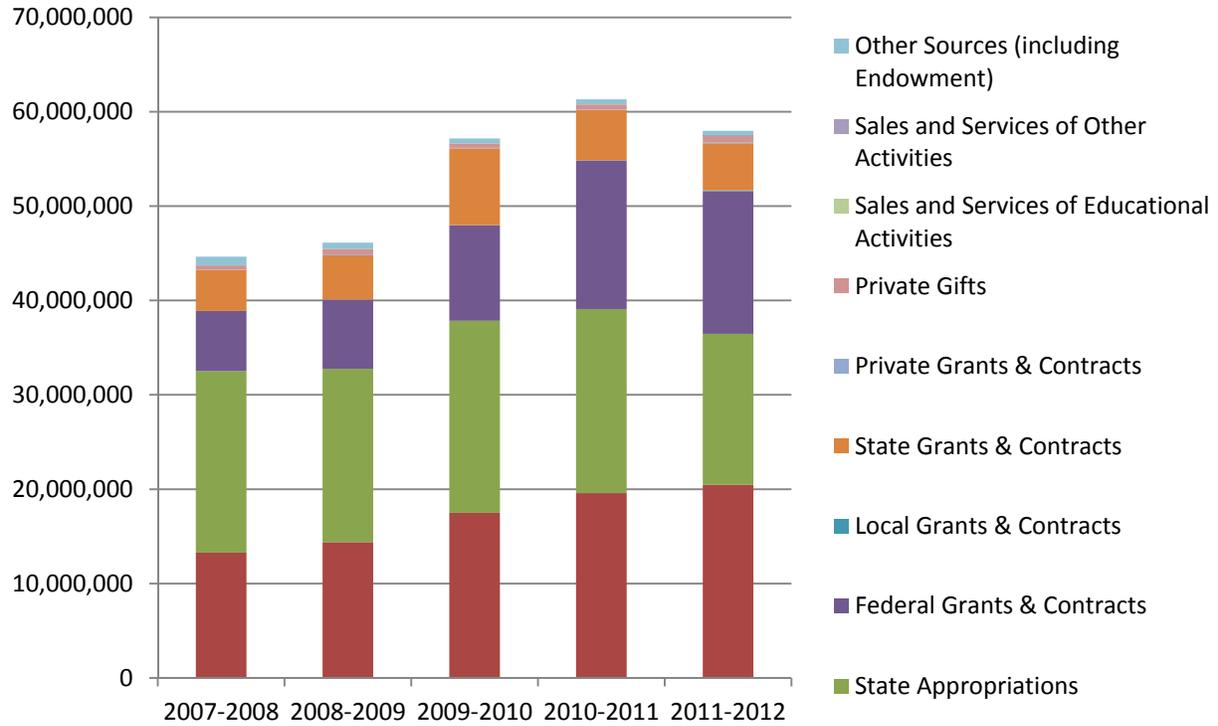
Northeast State Community College Funding Sources



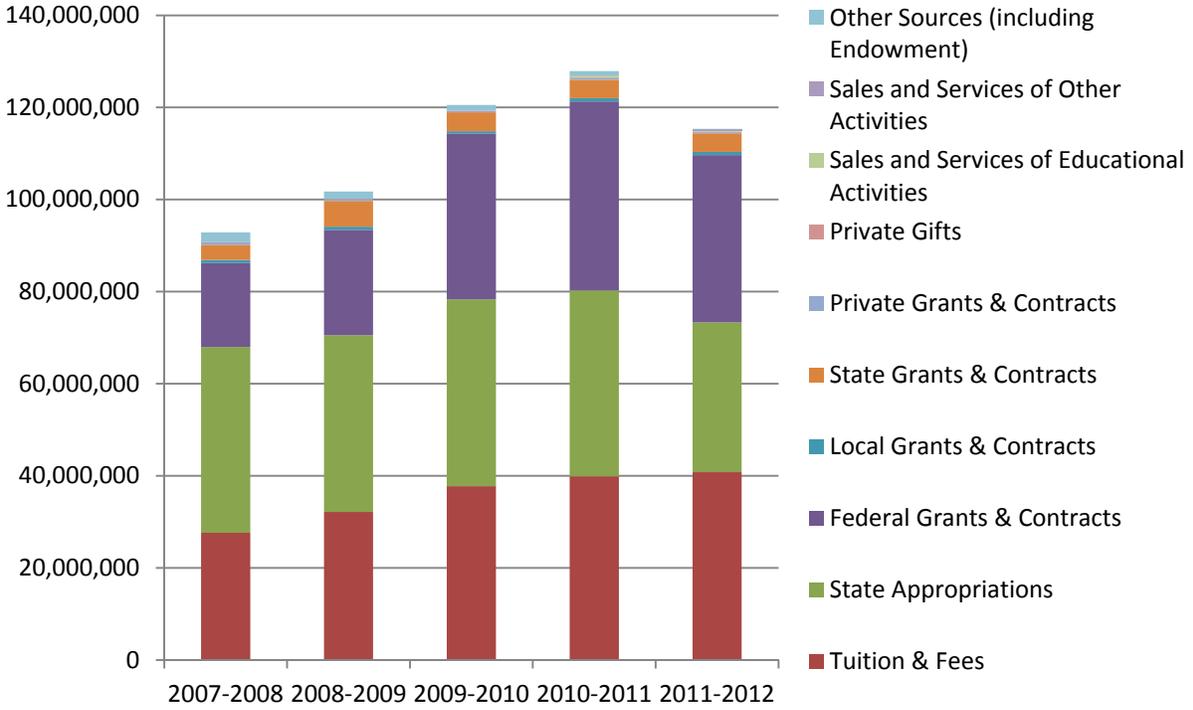
Pellissippi State Community College Funding Sources



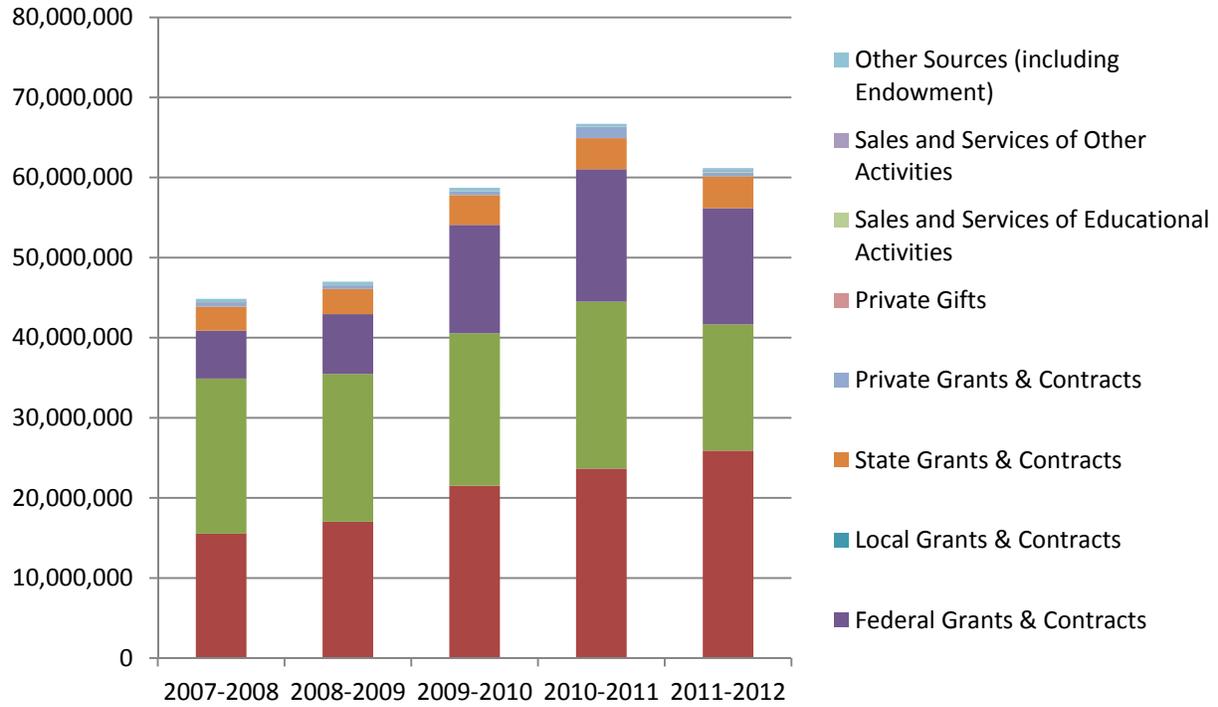
Roane State Community College Funding Sources



Southwest State Community College Funding Sources



Volunteer State Community College Funding Sources



Walters State Community College Funding Sources

