



**STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY**



**HIGHER EDUCATION ENTITIES:
TENNESSEE BOARD OF REGENTS
UNIVERSITY OF TENNESSEE BOARD OF TRUSTEES
TENNESSEE STUDENT ASSISTANCE CORPORATION
TENNESSEE HIGHER EDUCATION COMMISSION**

Performance Audit Report

December 2017

Justin P. Wilson, Comptroller



**Division of State Audit
Sunset Performance Section**

DEBORAH V. LOVELESS, CPA, CGFM, CGMA
Director

JOSEPH SCHUSSLER, CPA, CGFM
Assistant Director

SANDRA TULLOSS
Audit Manager

Mason Ball, CPA, CGFM, CFE
Catherine B. Balthrop, CPA
Melissa Boaz, CPA, CGFM, CFE, CGMA
Nichole Crittenden, CGFM, CFE
Alan Hampton
Suzanne Sawyers, CFE
In-Charge Auditors

Connie Calloway
Alex Frederick
Stacey Green, JD
Mike Huffaker
Sarah Vandergriff
Jafar Ware
Scott Wolfe
Staff Auditors

Amy Brack
Editor

Amanda Adams
Assistant Editor

Tennessee Comptroller of the Treasury, Division of State Audit
Cordell Hull Building
425 Fifth Avenue North
Nashville, TN 37243-3400
(615) 401-7897

Reports are available at
www.comptroller.tn.gov/sa/AuditReportCategories.asp

Mission Statement
The mission of the Comptroller's Office is to
make government work better.

Comptroller Website
www.comptroller.tn.gov



JUSTIN P. WILSON
Comptroller

JASON E. MUMPOWER
Chief of Staff

December 6, 2017

The Honorable Randy McNally
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 Jeremy Faison, Chair
House Committee on Government Operations
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243
and
The Honorable Dr. Flora W. Tydings, Chancellor
Tennessee Board of Regents
1 Bridgestone Park
Nashville, TN 37214

Emily J. Reynolds, Vice Chair
Tennessee Board of Regents
1 Bridgestone Park, Third Floor
Nashville, TN 37214

The Honorable Mike Krause, Executive Director
Tennessee Higher Education Commission and
Tennessee Student Assistance Corporation
Suite 1900, Parkway Towers
404 James Robertson Parkway
Nashville, TN 37243-0830

Evan Cope, Chair
Tennessee Higher Education Commission
1518 Georgetown Court
Murfreesboro, TN 37129

The Honorable Dr. Joe DiPietro, President
University of Tennessee
831 Andy Holt Tower
Knoxville, TN 37996-0180

Raja Jubran, Vice Chair
University of Tennessee Board of Trustees
719 Andy Holt Tower
1331 Circle Park Drive
Knoxville, TN 37996-0170

Ladies and Gentlemen:

Transmitted herewith is the sunset performance audit of the Tennessee Board of Regents, the University of Tennessee Board of Trustees, the Tennessee Student Assistance Corporation, and the Tennessee Higher Education Commission. This audit was conducted pursuant to the requirements of the Tennessee Governmental Entity Review Law, Section 4-29-111, *Tennessee Code Annotated*.

This report is intended to aid the Joint Government Operations Committee in its review to determine whether the Tennessee Board of Regents, the University of Tennessee Board of Trustees, the Tennessee Student Assistance Corporation, and the Tennessee Higher Education Commission should be continued, restructured, or terminated.

Sincerely,

A handwritten signature in black ink that reads "Deborah V. Loveless".

Deborah V. Loveless, CPA
Director

17320/17324/17272

State of Tennessee

Audit Highlights

Comptroller of the Treasury

Division of State Audit

Performance Audit

Higher Education Entities:

Tennessee Board of Regents

University of Tennessee Board of Trustees

Tennessee Student Assistance Corporation

Tennessee Higher Education Commission

December 2017

FINDINGS

The Tennessee Foreign Language Institute has weak internal controls over cash receipting and accounting

TFLI's executive director described a cash receipting process that included some separation of duties. However, based on discussion with TFLI staff and observation of internal controls, we found that little segregation of duties existed. In addition, TFLI's financial information is maintained in two separate systems that do not interface, which means that the information must be manually entered twice (page 13).

The Tennessee Foreign Language Institute should ensure that it is distinct from the nonprofit TFLI Fund

The line of distinction between TFLI and its nonprofit fundraising arm, the TFLI Fund, Inc., is not always clear. Grant agreements between TFLI and local nonprofit organizations include language that contains elements of both TFLI and the fund, which creates confusion as to which entity is receiving the grant money (page 16).

The Tennessee Foreign Language Institute relies on a small number of contracts for revenue and has no oversight of these contracts

For fiscal year 2017, TFLI received 58% of its revenue from contracts under one of its areas. Of that 58%, over half came from five vendors, with one vendor responsible for 20% of the revenue. Some of the vendors do not pay in a timely manner, which can create cash flow issues. In addition, there is no central oversight of TFLI's contracting function (page 17).

The Tennessee Foreign Language Institute should continue to expand its efforts to provide services outside of Middle Tennessee

According to *Tennessee Code Annotated*, one of the purposes of TFLI is the “coordination and provision of foreign language instruction to the citizens of this state.” TFLI currently offers services to the Nashville metro area with limited service in the rest of the state. TFLI officials have expressed a desire to expand its reach to other parts of the state (page 19).

OBSERVATIONS

The audit also discusses the following issues: powers of the Tennessee Foreign Language Institute governing board are vaguely defined and weak, and board member attendance at meetings was inconsistent (page 20); and locally governed institutions’ boards of trustees are not included in the Tennessee Governmental Entity Review Law (page 23).

Performance Audit Higher Education Entities

TABLE OF CONTENTS

	<u>Page</u>
INTRODUCTION	1
Purpose and Authority for the Audit	1
Organization and Statutory Responsibilities	1
AUDIT SCOPE	9
PRIOR AUDIT FINDINGS	9
OBJECTIVES, METHODOLOGIES, AND CONCLUSIONS	10
Tennessee Foreign Language Institute	11
Finding 1 – The Tennessee Foreign Language Institute has weak internal controls over cash receipting and accounting	13
Finding 2 – The Tennessee Foreign Language Institute should ensure that it is distinct from the nonprofit TFLI Fund	16
Finding 3 – The Tennessee Foreign Language Institute relies on a small number of contracts for revenue and has no oversight of these contracts	17
Finding 4 – The Tennessee Foreign Language Institute should continue to expand its efforts to provide services outside of Middle Tennessee	19
Observation 1 – Powers of the Tennessee Foreign Language Institute governing board are vaguely defined and weak, and board member attendance at meetings was inconsistent	20
Focus on College and University Success (FOCUS) Act	22
Observation 2 – Locally governed institutions’ boards of trustees are not included in the Tennessee Governmental Entity Review Law	23
Drive to 55 and Tennessee Promise	24
Tennessee Transfer Pathways	28
Tennessee Reverse Transfer Program	34
Tuition	39

TABLE OF CONTENTS (Continued)

	<u>Page</u>
Funding Formula	42
Tennessee Board of Regents Programs and Institutions	43
Institute for Public Service	48
Tennessee Student Assistance Corporation	50
APPENDICES	52
Appendix 1 – Tennessee Board of Regents Members	52
Appendix 2 – Tennessee Foreign Language Institute Governing Board Members	53
Appendix 3 – University of Tennessee Board of Trustees Members	54
Appendix 4 – Tennessee Student Assistance Corporation Board of Directors Members	55
Appendix 5 – Tennessee Higher Education Commission Members	56
Appendix 6 – University of Tennessee Budget Advisory Group Strategic Plan	57

Performance Audit Higher Education Entities

INTRODUCTION

PURPOSE AND AUTHORITY FOR THE AUDIT

This performance audit of the Tennessee Board of Regents, the Tennessee Higher Education Commission, the Tennessee Student Assistance Corporation, and the University of Tennessee Board of Trustees, all of which are scheduled to terminate June 30, 2018, was conducted pursuant to the Tennessee Governmental Entity Review Law, Title 4, Chapter 29, *Tennessee Code Annotated*. The Comptroller of the Treasury is authorized under Section 4-29-111 to conduct a limited program review audit of these higher education entities 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 higher education entities should be continued, restructured, or terminated.

ORGANIZATION AND STATUTORY RESPONSIBILITIES

Tennessee Higher Education Commission

The Tennessee Higher Education Commission (THEC) was created in 1967 to coordinate and unify Tennessee's public higher education programs, including the University of Tennessee (UT) and the Tennessee Board of Regents (TBR) systems. The commission has ten voting members; nine are appointed for six-year terms and represent the three grand divisions of the state. The tenth member, appointed for a one-year term, is one of two student members. The Comptroller of the Treasury, the State Treasurer, the Secretary of State, and the executive director of the State Board of Education, as well as one of the two public higher education student members, are ex-officio members. The voting student position rotates between a student from the UT system and one from the TBR system.

The executive director of THEC is appointed by the Governor and serves as the executive director of the Tennessee Student Assistance Corporation.

THEC's primary responsibilities include

- developing and maintaining a master plan for public higher education;
- making budgetary recommendations to the Governor;
- making binding tuition range recommendations for higher education;
- developing policies and formulas for the equitable distribution of public funds among public higher education institutions;

- studying the need for programs and departments at institutions;
- reviewing proposals for new degree programs and academic departments;
- making determinations concerning the establishment of new institutions of higher learning;
- submitting a biennial report on the status of higher education;
- administering the contract education program;
- administering tuition waiver and discount programs;
- authorizing the operation of postsecondary educational institutions;
- researching and analyzing the Tennessee Education Lottery Scholarship program; and
- coordinating Drive to 55 initiatives.

The Focus on College and University Success (FOCUS) Act of 2016 augmented THEC's coordinating role in Tennessee higher education by formalizing THEC's authority to set binding tuition and fee ranges; to oversee the higher education capital projects process; and to convene stakeholders to protect and advance state, institutional, and consumer interests.

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. THEC's and TSAC's combined organizational chart is located on page 4.

Tennessee Student Assistance Corporation

The Tennessee Student Assistance Corporation (TSAC) was created in 1974 by Section 49-4-201, *Tennessee Code Annotated*, to administer student assistance programs as a public nonprofit corporation. TSAC was Tennessee's designated federal guaranty agency responsible for the administration of postsecondary education loan programs until 2010, when the U.S. Department of Education began directly issuing all federally supported student loans. From that point forward, TSAC guaranteed no new federal loans, but administered other state and federal student assistance programs as authorized by the General Assembly.

Section 49-4-202, *Tennessee Code Annotated*, defines TSAC's governing body as an 18-member board of directors including

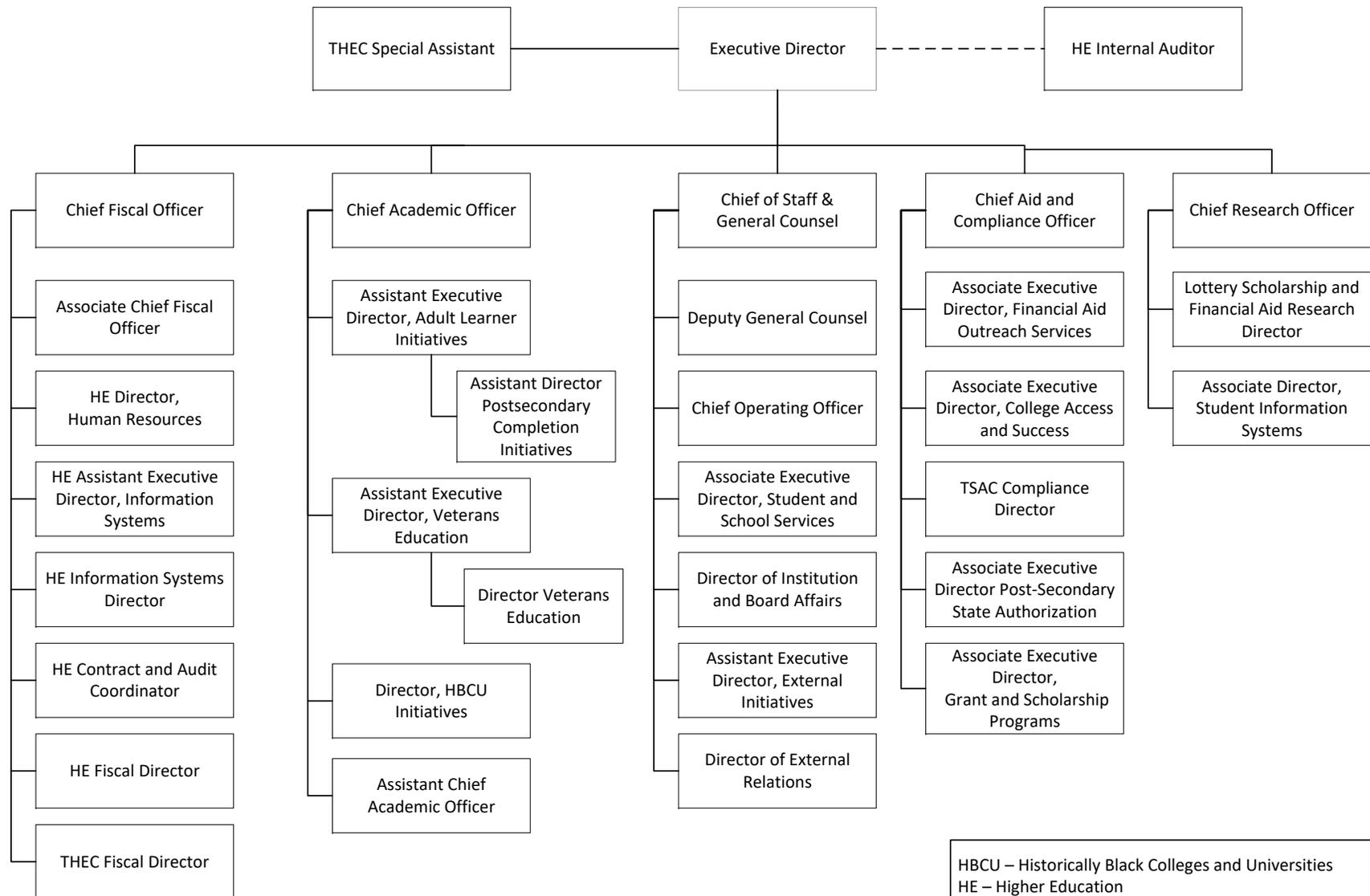
- the Governor;
- the commissioner of Education;
- the State Treasurer;
- the Comptroller of the Treasury;
- the commissioner of Finance and Administration;
- the director of the Tennessee Higher Education Commission;

- the president of the Tennessee Proprietary Business School Association;
- the president of the Tennessee Independent Colleges and Universities Association;
- the chair of the Tennessee Independent Colleges and Universities Association;
- the president of the University of Tennessee;
- the chancellor of the Tennessee Board of Regents;
- the president of the Tennessee Association of Student Financial Aid Administrators;
- one representative of a commercial lender;
- two students enrolled in an institution of higher education in Tennessee; and
- three private citizens involved in education but not employed by or professionally affiliated with any institution of higher education in the state.

While Section 49-4-203, *Tennessee Code Annotated*, allows TSAC to receive state appropriations for guaranteeing student loans, the TSAC board of directors voted in September 2015 to exit this federal loan program and relinquish the associated investment portfolio to the U.S. Department of Education-selected Educational Credit Management Corporation. However, TSAC continued to administer state awards of financial assistance to needy students and establish endowments for funding scholarships. TSAC is authorized to contract with a nonprofit corporation or organization to make low-cost, long-term banking credit available to needy students at a minimum cost to the student and with the nonprofit assuming responsibility for the loan administration and collection. TSAC administers the Tennessee Education Lottery Scholarship program, which consists of determining students' eligibility and distributing scholarship funds. The executive director of the Tennessee Higher Education Commission (THEC) serves concurrently as the executive director of TSAC and manages its daily operations.

THEC's and TSAC's combined organizational chart is located on the next page.

Tennessee Higher Education Commission and Tennessee Student Assistance Corporation November 2017



Source: Tennessee Higher Education Commission

HBCU – Historically Black Colleges and Universities
 HE – Higher Education
 THEC – Tennessee Higher Education Commission
 TSAC – Tennessee Student Assistance Corporation

Tennessee Board of Regents

The Tennessee Board of Regents (TBR), the governing body of the State University and Community College System of Tennessee, was created in 1972 by the General Assembly and codified in Title 49, Chapter 8, *Tennessee Code Annotated*. At that time, the system's member institutions were the state universities and community colleges formerly governed by the Tennessee Board of Education. In 1983, the General Assembly transferred the technical institutions and area vocational schools (now called Tennessee Colleges of Applied Technology) to the TBR.

The board consists of 18 members, including 4 ex-officio members: the Governor, the commissioner of Education, the commissioner of Agriculture, and the executive director of the Tennessee Higher Education Commission (a non-voting member). The Governor appoints 12 members, 1 from each congressional district and 3 at-large from different areas of the state or non-Tennessee residents. The board also includes 1 faculty and 1 student member, both of whom serve a 1-year term.

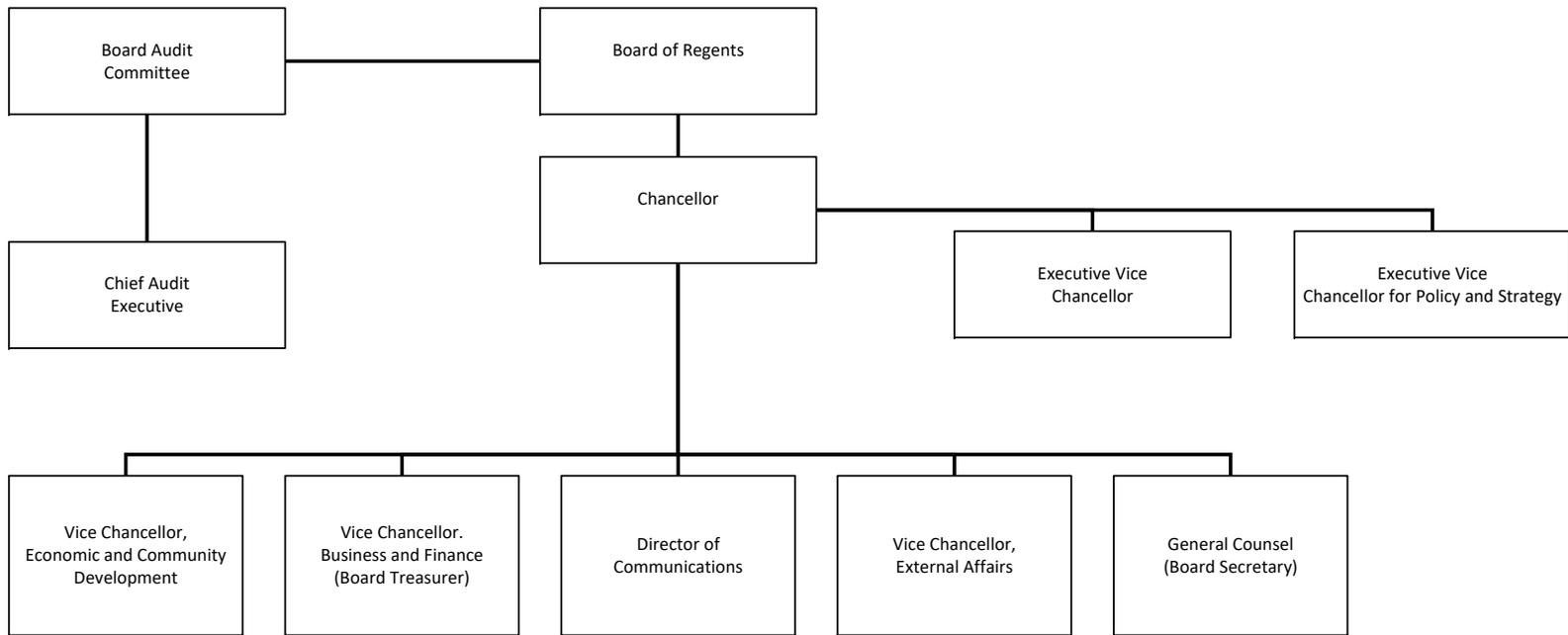
The board is responsible for assuring lay and public direction in postsecondary education. Members serve without compensation and meet at least 4 times a year in regular session. As a legislative entity, the board's purpose is to govern and manage the system, which includes 13 two-year colleges and 27 colleges of applied technology. The board is empowered to

- employ and define the duties of a chief executive officer;
- select and employ chief executive officers of the institutions;
- confer tenures and approve promotions of system faculty;
- prescribe curricula and requirements for diplomas and degrees;
- approve the operating and capital budgets of each institution and otherwise set policies for their fiscal affairs;
- establish policies and regulations regarding the campus life of the institutions; and
- assume general responsibility for the operations of the institutions while delegating to the chief executive officers such powers and duties as are necessary and appropriate for the efficient administration of their respective institutions and programs.

TBR's organizational chart is located on the next page.

The FOCUS Act of 2016 severed the six four-year universities from TBR governance and designated them as six separate locally governed institutions, as set forth in Section 49-8-101, *Tennessee Code Annotated*.

Tennessee Board of Regents November 2017



Source: Tennessee Board of Regents.

University of Tennessee System

The University of Tennessee (UT) was founded in 1794. Title 49, Chapter 9, *Tennessee Code Annotated*, sets forth statutory requirements for the UT system. UT carries out its three principal missions—instruction, research, and public service—through four primary campuses (Knoxville, Chattanooga, Martin, and the Health Science Center in Memphis); three institutes (the Space Institute, the Institute of Agriculture, and the Institute for Public Service); and agricultural and service operations across the state. UT’s organizational chart is located on the next page.

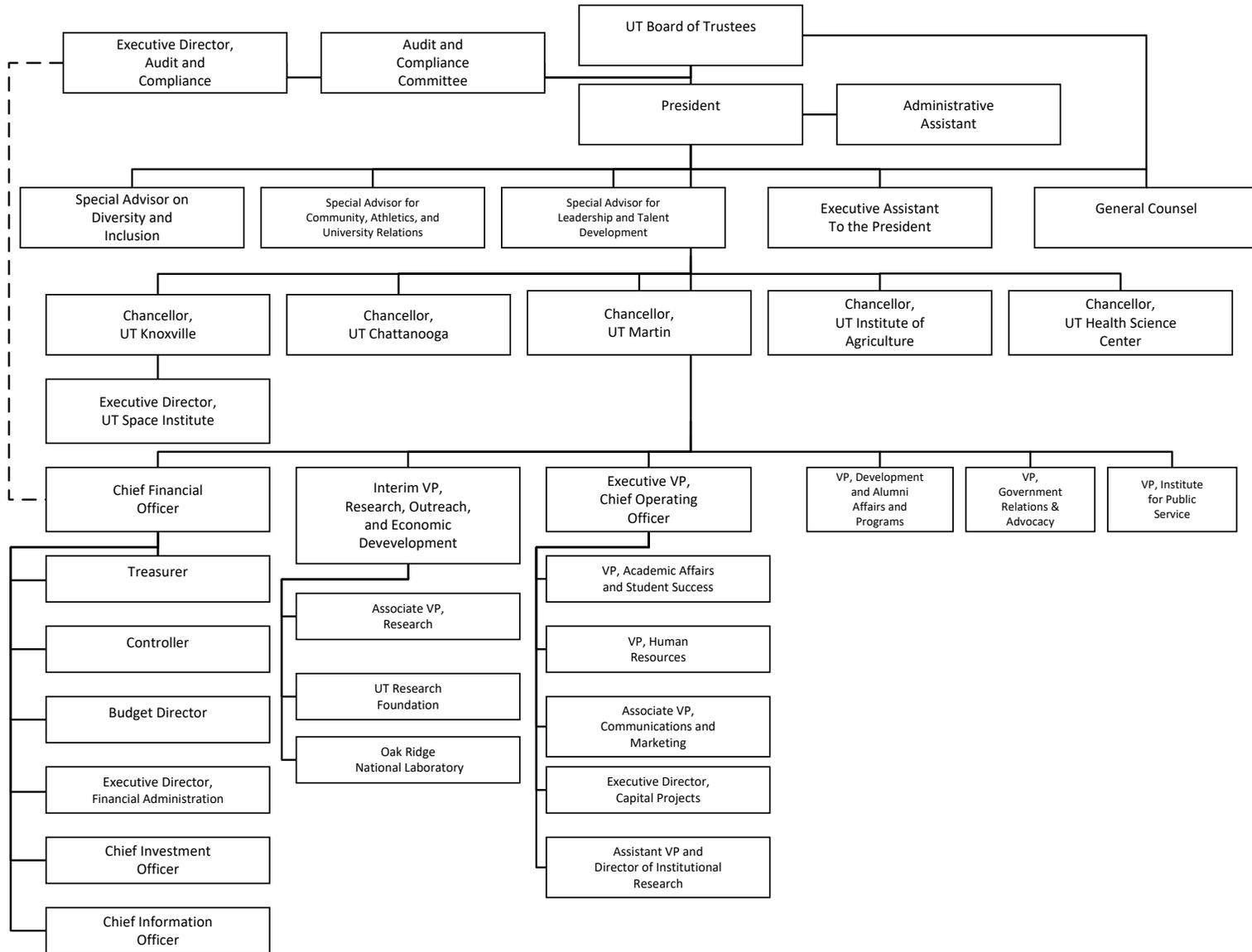
UT is governed by a board of trustees. Per Section 49-9-202, *Tennessee Code Annotated*, the board is composed of 27 members, 5 of whom are ex-officio members: the Governor, the commissioner of Agriculture, the commissioner of Education, the executive director of the Tennessee Higher Education Commission (a non-voting member), and the president of UT. The 22 Governor-appointed members consist of the following:

- 1 member from each of the 9 congressional districts;
- 2 members from Knox County;
- 2 members from Shelby County;
- 1 member from Weakley County;
- 1 member from Hamilton County;
- 1 member from Davidson County;
- 1 member from either Anderson, Bedford, Coffee, Franklin, Lincoln, Moore, or Warren County;
- 1 member who is a non-Tennessee resident (position vacant as of August 2017);
- 2 immediate past presidents of faculty senates (rotates annually among UT institutions)—1 a voting member and the other non-voting, who becomes the voting member the next year; and
- 2 students (rotates annually among UT institutions)—1 a voting member and the other non-voting, who becomes the voting member the next year.

The board is required to meet at least annually. A quorum was present for 7 board meetings during the past 2 years we tested. However, 2 ex-officio board members missed at least 5 of the 7 meetings tested. Statute does not allow for ex-officio members to have designees; however, the General Assembly may want to consider amending the law to allow for designees in the absence of ex-officio members.

The University of Tennessee

November 2017



Source: University of Tennessee.

AUDIT SCOPE

We audited the activities of the Tennessee Board of Regents, the University of Tennessee Board of Trustees, the Tennessee Student Assistance Corporation, and the Tennessee Higher Education Commission for the period of January 2015 to August 2017. Former Tennessee Board of Regents universities were not included in the audit scope due to the Focus on College and University Success (FOCUS) Act. Our audit scope included a review of internal controls and compliance with laws, regulations, and provisions of contracts or grant agreements that are significant within the context of the audit objectives. Managements of the Tennessee Board of Regents, the University of Tennessee Board of Trustees, the Tennessee Student Assistance Corporation, and the Tennessee Higher Education Commission are responsible for establishing and maintaining effective internal controls and for complying with applicable laws, regulations, and provisions of contracts and grant agreements.

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.

The General Assembly has designated the Comptroller of the Treasury both to serve as a board member of the Tennessee Higher Education Commission and the Tennessee Student Assistance Corporation, as well as to audit both entities. We do not believe the Comptroller's service as a board member affected our ability to conduct an independent audit.

PRIOR AUDIT FINDINGS

The Tennessee Board of Regents (TBR), the University of Tennessee (UT) Board of Trustees, the Tennessee Student Assistance Corporation (TSAC), and the Tennessee Higher Education Commission (THEC) filed reports with the Department of Audit in July 2014, following the January 2014 audit report. We conducted a follow-up of all prior audit findings as part of the current audit. The current audit disclosed that THEC and TBR corrected their previous audit findings. Additionally, TSAC corrected their findings, except one which no longer requires follow-up due to new research conducted by TSAC.

The UT Board of Trustees has one partially resolved prior audit finding concerning the transfer of college course credits. UT did not implement a system-wide process for recording which course credits were accepted or rejected in Banner, the higher education entities' administrative information system. The university is currently working with THEC and TBR to develop a statewide system to submit college transcripts electronically. The combination of electronic transcripts and changes in Banner could potentially resolve the prior audit finding, but

it is too early to tell. Because of progress made and ongoing activities, this finding will not be repeated.

OBJECTIVES, METHODOLOGIES, AND CONCLUSIONS

Our work concentrated on areas that were the focus of recent legislation, major statewide higher education initiatives concerning the three entities under review, follow-up of prior audit recommendations, and responding to a request from the General Assembly to gather information about the County Technical Assistance Service and Municipal Technical Advisory Service.

Our objectives were to

- determine the effects of the FOCUS Act regarding changes in structure, oversight, and responsibility of higher education entities;
- assess the status of the Tennessee Transfer Pathways Program, as well as the Tennessee Higher Education Commission's (THEC) plans for continued monitoring and updating of the program in light of the FOCUS Act;
- evaluate the higher education institutions' processes for and THEC's oversight over tuition rate adjustments and major strategic plans undertaken by the institutions to minimize tuition increases;
- determine how student counts are compiled and used for funding and major state initiatives, including but not limited to Drive to 55;
- identify and evaluate Drive to 55 and Tennessee Promise goals, progress towards those goals, and resulting changes in structure, oversight, enrollment, and system capacity;
- determine the Tennessee Board of Regents' (TBR) process for measuring community need and academic program success;
- identify barriers to timely graduation at community colleges;
- evaluate whether the Tennessee Foreign Language Institute and its board fulfill statutory mandates;
- identify and assess services provided by the County Technical Assistance Service and Municipal Technical Advisory Service;
- evaluate the Tennessee Student Assistance Corporation's (TSAC) role as administrator for postsecondary educational loan and grant programs, determine advantages of TSAC acting as a separate entity, and provide a status update on TSAC's past, current, and future roles;
- determine and analyze THEC's responsibilities and how it systemically communicates with the Tennessee Board of Regents and University of Tennessee systems;
- identify attendance rates for audited entities' board members; and

- follow up on prior audit recommendations regarding all audited entities.

Our methodology involved interviewing entity officials, examining entities' documentation, reviewing entities' websites, and reviewing entity statistics.

TENNESSEE FOREIGN LANGUAGE INSTITUTE

The Tennessee Foreign Language Institute (TFLI) was created by statute in 1986. Title 49, Chapter 50, *Tennessee Code Annotated*, sets forth TFLI's statutory requirements as well as its purpose, which includes foreign language instruction and research on effective methods of foreign language instruction. The facility is in Nashville, and it is governed by a 9-member board (see TFLI's organization chart on the next page). An executive director oversees the daily operations. During fiscal year 2017, TFLI served over 2,000 students in its foreign language and English as a Second Language classes. TFLI does not have its own termination date but falls under the Tennessee Board of Regents' (TBR) termination statute; therefore, our office has not conducted a focused performance audit on TFLI in recent years. During the current audit, we evaluated whether TFLI and its associated board are fulfilling their statutory mandates.

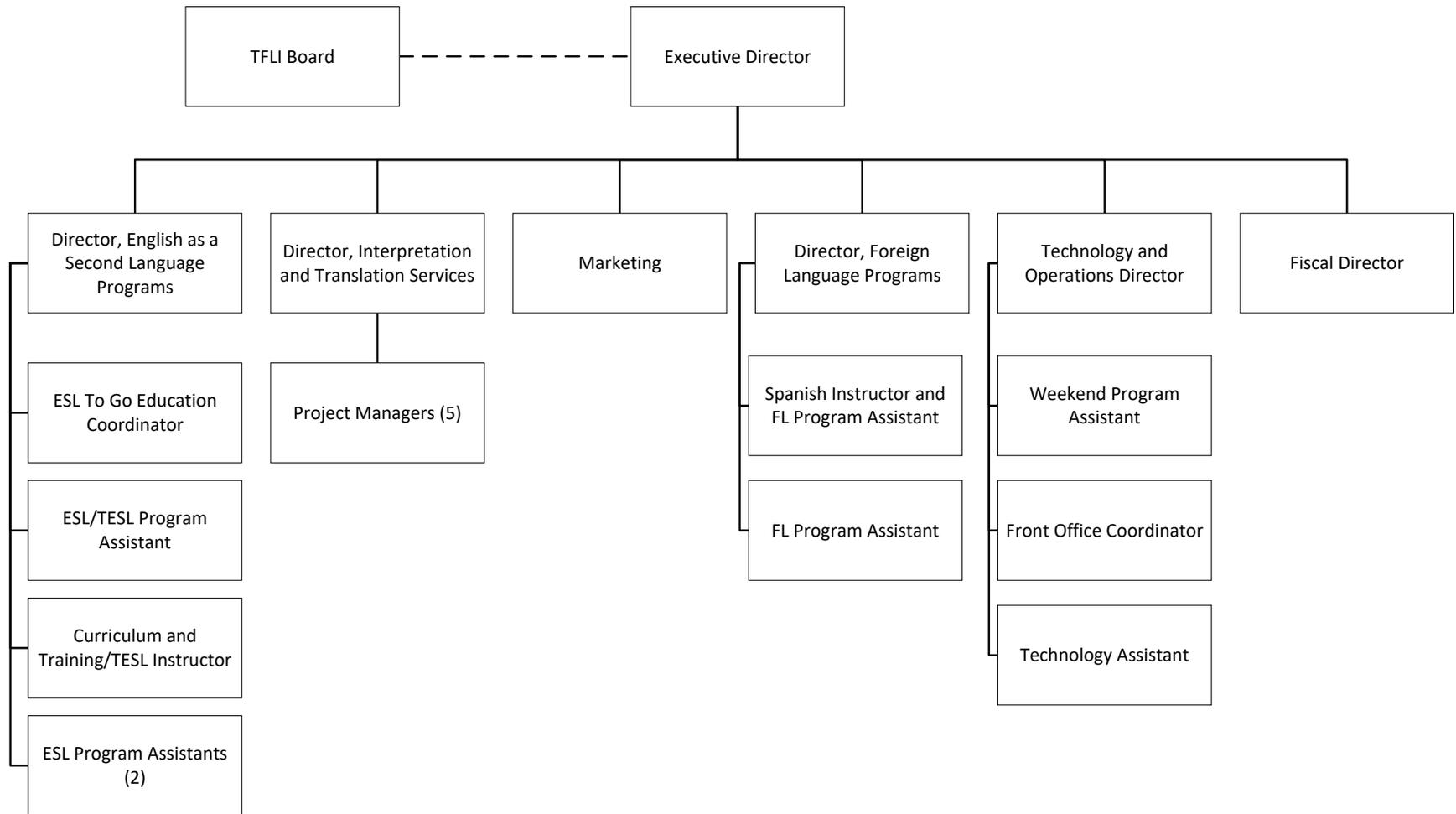
TFLI is administratively attached to TBR, which provides fiscal services to TFLI through a memorandum of understanding (memorandum). The memorandum specifies that TFLI and its executive director will administer and govern in areas such as personnel, budget planning and approval, and "any and all matters related to the management and mission of the Institute." For example, the memorandum calls for TBR to provide accounting, but not assume responsibility for financial statement preparation or other financial reporting except for accounting reports and summary information provided to TFLI's management.

In addition, the Tennessee Higher Education Commission (THEC) has the ability, through the appropriations act, to close out TFLI's records at the end of a fiscal year. THEC is responsible for covering any deficits.

The TFLI Fund is a 501(c)(3) corporation, established in 1995 as a means of support for the institute, and is organized for educational purposes related to foreign languages. It has a separate board of directors but no staff. The fund conducts fundraising events and receives contributions and grants on behalf of TFLI.

Tennessee Foreign Language Institute

November 2017



Source: Tennessee Foreign Language Institute.

**Table 1
TFLI Financial Information**

**Revenues by Source
For the Fiscal Year Ended June 30, 2017**

<i>Source</i>	<i>Amount</i>	<i>% of Total</i>
Grants	\$ 196,574	7%
Program Fees	\$ 2,158,873	75%
State Appropriation	\$ 516,700	18%
Total Revenues	\$ 2,872,147	100%

**Expenses by Category
For the Fiscal Year Ended June 30, 2017**

<i>Category</i>	<i>Amount</i>	<i>% of Total</i>
Salaries	\$ 1,179,530	42%
Benefits	\$ 387,062	14%
Operational & Administrative	\$ 1,226,304	44%
Total Expenses	\$ 2,792,896	100%

Source: TFLI

Finding

1. The Tennessee Foreign Language Institute has weak internal controls over cash receipting and accounting

We reviewed internal controls over the Tennessee Foreign Language Institutes (TFLI)'s cash and check receipting and accounting process and found that TFLI does not follow its own internal guidelines. TFLI's Executive Director described an expected process to auditors which provides for at least some separation of duties. However, while we didn't note any instances of theft, we observed that the expected practices were not always followed. For example, while the Executive Director described a process where the fiscal director only provided accounting for cash and checks, we observed examples where the fiscal director prepared deposits, recorded the deposits in the accounting system, and took deposits to the bank. Additionally, TFLI staff described the process consistent with the auditors' observations. In contrast, online credit card payments are processed by the Tennessee Board of Regents (TBR). TFLI has sufficient staff to separate cash and check handling duties. Allowing one individual to have control over these duties increases the risk of theft or misappropriation of funds.

We also noted that TFLI's financial information is maintained in two separate systems. TFLI staff record all transactions in the institute's own accounting system, then send the information to TBR, which records the information in Banner. The two systems do not interface; therefore, any financial information must be shared and manually entered twice. Having two sets of accounting records increases the risk that transactions will be entered incorrectly and either party relying on improper financial information. This practice also increases the risk that misappropriations will go unnoticed. In addition, TFLI and TBR do not account for certain transactions, such as receivables, in the same manner, which can create confusion regarding the amount of funds that TFLI has available at any given time. In fact, TFLI has found itself in financial difficulties due to this confusion in the recent past.

Recommendation

TFLI should separate the duties related to deposits and centralize the bookkeeping function. Possible solutions include allowing TFLI staff to make entries directly into Banner or adopting an accounting system that interfaces with Banner. TFLI and TBR should also be consistent in the treatment of transactions, such as receivables.

Management's Comment

The TFLI concurs in part with this finding.

The part with which we do not concur is the characterization that TFLI does not follow its own internal guidelines.

ACTION PLAN: We are willing to further segregate the duties to address the potential for fraud in the preparation of the actual deposit slip and in the post-deposit verification stage. We will (1) have the actual deposit slip filled out by the individual who verifies the items to be deposited after posting, who will then (2) give to an additional individual to take the deposit to the bank, who then (3) will bring the receipt back to be re-verified with the original deposit detail documentation for completeness, (4) attesting with date and signature that the amount presented was the amount deposited, thus removing any possibility of fraud or misappropriation. The new procedure is as follows, with changes indicated by uppercase letters:

- **RECEIPTING:** Cash and checks are received, stamped for deposit, logged; checks and receipts copied and prepared for posting by designated office and clerical staff (never by the fiscal director), and are secured in the safe until posting begins.
- **POSTING:** Within one business day of receiving \$500 or more, posting and depositing begins. The TFLI fiscal director posts payments and receipts into our internal accounting software, QuickBooks.

- VERIFICATION: Once posting is complete, documentation for depositing is created which includes a printout from QuickBooks (Items to Deposit). The deposit documentation, cash, checks and deposit slip to be used are then passed along to a third individual from the administrative staff who returns to the check and cash logs and receipts and confirms that every item previously logged is now present in the deposit. THE BANK DEPOSIT SLIP IS PREPARED BY THE INDIVIDUAL WHO HAS VERIFIED THAT ALL RECEIPTED ITEMS ARE PRESENT, INITIALING THE DEPOSIT SLIP. The deposit is made ready for transport to the bank. A spreadsheet of the deposit detail is emailed to the TN Board of Regents Assistant Director of Fiscal Services as well as to the TFLI Executive Director, detailing each item to be deposited.
- DEPOSIT: A FOURTH INDIVIDUAL TAKES THE DEPOSIT TO THE BANK, WHERE A PAPER RECEIPT IS ISSUED.
- POST-DEPOSIT: When the deposit is complete, the paper receipt with an amount matching what was previously verified IS RETURNED TO THE VERIFIER WHO THEN SIGNS THE DOCUMENTATION AND RECEIPT INDICATING THAT THE PREVIOUSLY VERIFIED DEPOSIT WAS COMPLETED AS DISPATCHED. The paper receipt is then stapled to the deposit documentation (copies of all checks and receipts and printouts) and filed.

IMPLEMENTATION DATE: Immediate

With regard to the finding on the two separate systems, the internal systems used are strictly for generation of client invoices and posting of payments received. All data reported in financial reports are gleaned from the systems maintained by the TN Board of Regents, to which our fiscal director has reporting access. We feel that the redundancy can actually serve to double-check the financial records maintained by TBR; when any discrepancy arises we are able to address it using our records and locate where any error may have occurred. Still we are very much open to discussions with Fiscal Services at the TN Board Regents about any system changes that will improve accuracy and reporting.

ACTION PLAN: The TFLI Executive Director will initiate discussions regarding this finding with TBR Fiscal Services and will apprise our Governing Board and the Division of State Audit of the options and feasibility of any changes in current procedure.

IMPLEMENTATION DATE: Immediate

Finding

2. The Tennessee Foreign Language Institute should ensure that it is distinct from the nonprofit TFLI Fund

The Tennessee Board of Regents (TBR) Office of System-wide Internal Audit completed a review of the Tennessee Foreign Language Institute (TFLI) in May 2014. One of the several items TBR noted was a lack of distinction between TFLI (a state agency) and its fundraising arm, the nonprofit TFLI Fund, Inc. The auditors noted that agreements with entities for grants gave descriptions of TFLI's activities but directed that grants be paid to the TFLI Fund.

We reviewed three agreements between TFLI and local nonprofits. For each agreement, we noted that the language included elements of both the institute and the fund. For example, one agreement listed TFLI as the entity name but included the 501(c)(3) determination letter for the fund. Another agreement listed the fund as the recipient but provided a description of the English as a Second Language program, which is a function of the institute. The third agreement listed TFLI as the recipient, but listed the name of a fund board member as the contact. The financial statements and Internal Revenue Service Form 990s for the fund disclose that the grant money was provided to the institute.

The lack of distinction between the institute and the fund in the agreements creates confusion about which entity is truly receiving the grants and has the potential for legal issues because the institute and the fund are separate legal entities.

Recommendation

TFLI and the TFLI Fund should ensure that any agreements involving both parties show a clear distinction between the two entities and emphasize that the state agency and the nonprofit fundraising corporation are legally separate. Parties to the agreements should be able to easily discern that 1) the entities are separate and distinct and 2) any grants provided are going to the TFLI Fund, which uses the funds to support the TFLI.

Management's Comment

The TFLI concurs with the above finding.

The TFLI Fund, Inc. (the Fund) is a 501c3 that serves as a fundraising arm for TFLI (the Institute) and is responsible for compliance with the IRS regulations guiding 501c3 entities. It has a CPA partner from Kraft CPAs as its treasurer. The relationship between the two entities (the Fund and the Institute) is modeled upon the TBR Foundation Policy - Foundations : 4:01:07:02 – which was adopted pursuant to T.C.A. §§ 49-7-107 and 49-11-402(a)(4) which authorizes and empowers the Tennessee Board of Regents to take steps necessary for the establishment of foundations for the institutions governed by the Board. Within that policy statement the relationship is described as follows:

Foundation/Institution Relationship

1. A foundation is not an operational function of an institution; it is a separate legal entity.
2. The foundation/institution relationship is derived from a shared interest in the institution's development.
3. Institutional participation in and support of foundation operations are, therefore, appropriate and desirable.
4. It is recognized that to be effective in achieving its purpose, a foundation's identity must be maintained separate from the institution.
5. The accountability of a foundation and the institution as it relates to the foundation, however, are concerns common to the foundation, the institution, and the Board.

A copy of this entire policy has been provided to the leadership of the Fund.

With regard to the narrative indicating confusion between the two entities -- Another agreement listed the fund as the recipient but provided a description of the ESL program, which is a function of the institute -- part of the Fund's function is to serve as a fiscal conduit for grants to further the mission of TFLI, and application for those grant funds would thereby necessitate an explicit understanding of the activities to be undertaken with those funds.

ACTION PLAN: TFLI will address the issue with the leadership of the Fund, requesting that they incorporate best-practices from the TBR Foundation Policy into their member guidelines and operations. TFLI staff will be vigilant to note any incorrect designation of entities in any paperwork and make necessary corrections or alert the Fund to do so as appropriate.

IMPLEMENTATION: Immediate and ongoing

Finding

3. The Tennessee Foreign Language Institute relies on a small number of contracts for revenue and has no oversight of these contracts

The Tennessee Foreign Language Institute (TFLI) is dependent on a small number of contracts and does not effectively monitor those contracts. For fiscal year 2017, TFLI received 58% of its revenue from contracts under its Interpretation and Translation Services area. Of that 58%, one vendor was responsible for 20% of the revenue, and over half of the revenue from Interpretation and Translation Services came from five vendors. The loss of any one of these vendors could have a significant impact on TFLI's ability to continue operating as a going concern, as has happened in the recent past. Furthermore, due to the contractors' payment practices, TFLI's cash flow dwindles when contractors pay after increasingly lengthy periods of time.

There is also no central oversight of TFLI's contracting function. While the institute is administratively attached to the Tennessee Board of Regents (TBR), TBR provides no oversight or review of the institute's contracts and agreements with other entities.

Recommendation

TFLI should explore additional revenue streams and work to lower its dependence on a small number of contracts. Additionally, the institute should consider working with the TBR to implement a system for reviewing contracts and agreements.

Management's Comment

The TFLI concurs in part with the above finding.

To be noted is the distinction that if one of the larger clients were lost, we would also then lose the associated expense of paying contractors for the work. Thus, the loss would be offset to some degree by a decrease in expenditures proportionate to the revenue. Granted, the net revenue loss would have some impact, but TFLI is on solid footing and is building reserves. Cash balance at the end of the first quarter of fiscal year 2018 was \$364,389, compared with \$246,791 for that same period in fiscal year 2017, which calculates to a 47% increase.

With regard to the commentary regarding contracts, we concur that increased monitoring of the contracts is appropriate.

ACTION PLAN: The TFLI will continue to explore additional revenue streams and work to lower its dependence on a small number of contracts. TFLI will review and revise procedures to provide for increased monitoring of the contracts to ensure both continuity of the contracts and timely collections.

IMPLEMENTATION: Immediate and ongoing.

Finding

4. The Tennessee Foreign Language Institute should continue to expand its efforts to provide services outside of Middle Tennessee

According to Section 49-50-1302, *Tennessee Code Annotated*, one of the purposes of the Tennessee Foreign Language Institute (TFLI) is the “coordination and provision of foreign language instruction to the citizens of this state.” Currently, TFLI offers services to the Nashville metro area, with limited service in the rest of the state. TFLI officials indicated that they want to expand the institute’s reach to other parts of the state, and they currently offer limited distance learning opportunities for one-on-one instruction and small groups. Further expansion of distance learning would enhance TFLI’s ability to provide foreign language instruction to the citizens of Tennessee.

Recommendation

TFLI should work to expand its distance learning program and should consider working with the locally governed institutions, the Tennessee Board of Regents, and the University of Tennessee to explore potential partnerships and sharing of resources and thus fulfill its statutory mandate.

Management’s Comment

The TFLI concurs in part with the finding.

According to Section 49-50-1302, *Tennessee Code Annotated*, one of the purposes of the institute is the “coordination and provision of foreign language instruction to the citizens of this state.” We are fulfilling our mandate to provide foreign language instruction to the citizens of Tennessee; however, an admitted challenge is how to serve the state more fully, widely and consistently, given that our appropriation is only 16% of our operating budget, and requests for additional funding have not been considered in the budgetary discussions. It is our geographic reality that the majority of our students are citizens who reside in the greater middle Tennessee region, including counties to the north, south, east and west. Still, we have successfully offered classes on the ground in the three grand divisions over the years of the Executive Director’s employment (1999-present) for individuals and businesses, as well as classes for state government employees in Knoxville, Chattanooga and Memphis.

When requested, we make every effort to find qualified instructors in the area needed to respond to demand. We did at one point have a location for classes in Memphis, but it was not economically viable, and we discontinued classes in Memphis at the direction of our board. Still, market research continues. As recent as this past fall, we participated in the Japan Festival in Memphis and gauged interest for classes in the area again. We have had several discussions with State Representative John Deberry of Memphis about potential locations for classes within his district. Currently, we have a class on the schedule in Jackson, TN beginning January 2018 which will be comprised of State employees using fee waivers and open to any private citizen with paid tuition.

In the area of distance learning, we have successfully conducted online classes for individuals throughout the state and have recently upgraded our network infrastructure to a fiber connection with greater bandwidth, which will further allow us to create and pilot additional distance learning opportunities.

It is the opinion of TFLI that this is not a finding, but an observation and an opportunity for growth, which have been pursuing and will continue to pursue. We would like to leverage existing state resources to further our expansion throughout the state.

ACTION PLAN: TFLI will continue to expand its distance-learning program and will reach out to the TFLI Governing board members of the locally governed institutions, the Tennessee Board of Regents, and the University of Tennessee to explore potential partnerships and sharing of resources to continue in the fulfillment of our legislative mandate.

IMPLEMENTATION: Immediate and ongoing.

Observation

1. Powers of the Tennessee Foreign Language Institute governing board are vaguely defined and weak, and board member attendance at meetings was inconsistent

The governing board of the Tennessee Foreign Language Institute (TFLI) has few explicit powers. Section 49-50-1304, *Tennessee Code Annotated*, states that the governing board “shall hire an executive director to administer the institute.” This is the only power specifically assigned to the board in statute. In contrast, the Tennessee Board of Regents is given much more authority in Section 49-8-203, *Tennessee Code Annotated*, such as confirming the selection and employment of the chief executive officers of the institutions and appointments of administrative staff; prescribing curricula and requirements for diplomas and degrees; and approving operating budgets and setting fiscal policies. While the TFLI governing board can affect these issues by replacing the executive director, it is not the most efficient means of governing TFLI’s activities.

Section 4-35-102, *Tennessee Code Annotated*, states in part that a state governing board, council, commission, or equivalent body that has the authority to hire and terminate its employees is required to create an audit committee. The TFLI governing board has an audit committee, in accordance with this statute, but the board has no statutory authority to implement the audit committee’s recommendations.

Governing Board Attendance

Attendance by the members of the TFLI governing board has been erratic. According to Section 49-50-1303, *Tennessee Code Annotated*, TFLI is governed by a board composed of the following members:

- (1) The commissioner of economic and community development or the commissioner’s designee;
- (2) The commissioner of tourist development or the commissioner’s designee;

- (3) The chancellor of the state university and community college system or the chancellor’s designee;
- (4) The president of the University of Tennessee or the president’s designee;
- (5) Three (3) persons who shall be appointed by the governor;
- (6) The executive director of the Tennessee higher education commission; and
- (7) The commissioner of education.

According to the *Rules of Procedure of the TFLI Board*, Section IX, “Quorum,” a quorum of the board consists of five members. We reviewed minutes of the seven TFLI governing board meetings between February 2014 and February 2017, and we attended the July 2017 meeting. For four of the eight meetings, a quorum was not present.

We also noted that meeting attendance for the governing board members was erratic, despite statute allowing four members of the governing board to have a designee (see Table 2 for a breakdown of attendance.) The executive director of the Tennessee Higher Education Commission (THEC) and the commissioner of Education do not have provisions in the statute for a designee. However, we found that both the executive director and commissioner sent designees to meetings. We noted that for the December 2015 and February 2017 meetings, a designee was present in place of the executive director of THEC. For the February 2014, June 2015, February 2017, and July 2017 meetings, a designee was present in place of the commissioner of Education. Additionally, despite having a provision to send a designee, the commissioner of Economic and Community Development (ECD) was represented at only one meeting. Finally, four individuals served as one of the Governor’s three appointees. One appointee attended six meetings, another appointee attended only one meeting, and the other two appointees failed to attend any meetings.

Table 2
Breakdown of TFLI Board Member Attendance
February 2014 to July 2017 (Eight Meetings)

Member	Number of Meetings Member Attended	Percent of Meetings Member Attended*	Number of Meetings Designee Attended	Percent of Meetings Designee Attended*	Percent of Meetings Attended
ECD Commissioner or Designee	0	0%	1	13%	13%
Tourist Development Commissioner or Designee	2	25%	2	25%	50%
TBR Chancellor or Designee	0	0%	7	88%	88%
UT President or Designee	0	0%	6	75%	75%
THEC Executive Director or Designee	4	50%	2	25%	75%
Education Commissioner or Designee	0	0%	4	50%	50%
3 Governor Appointees	6**	25%	NA	NA	25%

*Members were eligible for eight meetings.

**The three members were collectively eligible for 24 meetings.

Source: TFLI board meeting minutes.

For TFLI to effectively carry out its duties related to foreign language instruction and research, the institute requires the support of a strong governing board. Based on the attendance at the last eight meetings and the fact that half of the meetings lacked a quorum, serving on the TFLI governing board does not appear to be a high priority for some of the board members.

The General Assembly may wish to consider strengthening the role of the governing board beyond just the hiring of the executive director. Further, the General Assembly may wish to add language either permitting or denying the ability of the THEC executive director and the commissioner of Education appoint a designee.

FOCUS ON COLLEGE AND UNIVERSITY SUCCESS (FOCUS) ACT

Our objective was to determine the effects of the FOCUS Act regarding changes in the structure, oversight, and responsibility of higher education entities.

How the FOCUS Act Changed the Higher Education Structure

The Focus on College and University Success (FOCUS) Act was enacted on April 4, 2016, by Public Chapter 869 and became effective July 1, 2016, as part of Governor Haslam's Drive to 55 initiative. This act restructured Tennessee's higher education system by severing the six Tennessee Board of Regents (TBR) universities (Austin Peay State University, East Tennessee State University, Middle Tennessee State University, Tennessee State University, Tennessee Technological University, and University of Memphis) to be locally governed by independent boards. The change leaves TBR responsible for the 13 community colleges and 27 technical colleges.

Each four-year university board is to be composed of nine voting members and one non-voting member. Eight of the voting members are appointed by the Governor and confirmed by the legislature. The remaining voting member must be a member of the university faculty, and the non-voting member must be a university student. After the initial staggered appointment terms expire, all appointed members will serve six-year terms; the faculty member, a two-year term; and the student, a one-year term.

The locally governed boards, per Section 49-8-203, *Tennessee Code Annotated*, have the authority to

- hire the chief executive officer of their universities;
- confirm the appointment of any administrative personnel, teachers, and other employees, as well as dictate salaries and terms of office;
- prescribe curricula and requirements for diplomas and degrees;
- approve operating budgets and set fiscal policies for the schools and programs under their control;
- establish policies and recommendations regarding the campus life of the institutions, including student conduct, student housing, parking, and safety;

- assume the general responsibility for the operation of the institutions, including receiving donations (money, securities, and property), purchasing and condemning land, and erecting and equipping buildings; and
- manage and initiate capital and real estate transactions, provided they are within the scope of the THEC-approved master plan.

Observation

2. Locally governed institutions’ boards of trustees are not included in the Tennessee Governmental Entity Review Law

The boards of trustees of the six universities formerly under Tennessee Board of Regents’ (TBR) guidance have been appointed and approved. These boards are not included in the scope of this audit or in the Tennessee Governmental Entity Review Law (sunset statute) to ensure periodic legislative review. The General Assembly may wish to add to sunset statute for the boards of trustees for the following universities:

Austin Peay State University	East Tennessee State University
Middle Tennessee State University	Tennessee State University
Tennessee Technological University	University of Memphis

How the FOCUS Act Changed THEC’s Oversight of Higher Education Institutions

The FOCUS Act of 2016 expanded the level of Tennessee Higher Education Commission (THEC) authority in several fundamental areas for all of Tennessee’s higher education entities, including the University of Tennessee. Specifically, the act augmented THEC’s coordinating role in Tennessee higher education by formalizing THEC’s authority to set binding tuition and fee ranges; oversee the higher education capital projects process; and convene stakeholders to protect and advance state, institutional, and consumer interests.

In May 2017, THEC revised its policies in the areas of capital projects and tuition and fees to reflect its expanded authority under the FOCUS Act.

Capital Projects

Section 49-8-203(c), *Tennessee Code Annotated*, specifies that THEC stipulates that university boards have the authority to manage and initiate real estate transactions, but only when the transactions are within the scope of the THEC-approved master plan. THEC Policy F4.0, “Capital Projects,” further outlines THEC’s authority to identify, prioritize, and make recommendations related to capital investment and real estate transactions for institutions of higher education through approval of master plans. For capital outlay, each governing board is to submit a prioritized list of projects to THEC. THEC staff review the list and make recommendations for THEC approval. THEC prioritizes the list of projects and submits the list to the Department of Finance and Administration (F&A) for review and consideration in the annual appropriations request.

The process for capital maintenance is similar. For capital maintenance, each governing board submits a prioritized list of projects to THEC, and staff review the list and make recommendations based on a capital maintenance formula. THEC reviews the recommendations and submits its results to F&A for review and consideration in the annual appropriations request.

For disclosed projects (those funded with non-state appropriations), the institutions may choose their own course of action. Depending on the source of funding, THEC compiles and submits a list of these projects to F&A, the Office of Legislative Budget Analysis, the State Building Commission, and other relevant parties as needed. The reporting is done at least quarterly and should include projects with expenditures on capital improvements exceeding \$100,000 and expenditures on capital maintenance exceeding \$500,000, as well as all projects using certain non-state-appropriated funding.

Tuition and Fees

THEC Policy F2.0, “Tuition and Fees,” reiterates THEC’s statutory authority, outlined in Section 49-7-202, *Tennessee Code Annotated*, to develop a comprehensive strategic financial plan focusing on student tuition and other charges; to operate an outcomes-based funding formula that considers the impact of tuition, maintenance fees, and other charges assessed by each institution; to promulgate and adopt rules concerning residency, fee waivers, and tuition discounts; and to develop and approve tuition policies that are binding upon all state institutions of higher education.

THEC must develop and approve an annual policy applicable to tuition and fees charged to in-state undergraduate students, otherwise known as in-state tuition, maintenance fees, and mandatory fees. The tuition and fee policy set by THEC is binding upon all state institutions of higher education. However, THEC has no authority to set a tuition and fee policy that applies to non-resident or graduate students.

Under this policy, the institutions may adopt tuition and fee adjustments that are within THEC’s approved policy ranges, but any increase must not exceed the maximum percentage set by THEC. Institutions may reduce tuition and fees with the approval of their respective governing boards.

THEC is also responsible for producing annual fee comparison reports to present to executive and legislative officials, as well as for determining the number of out-of-state students charged in-state tuition rates. In addition, THEC is responsible for developing and adopting rules and regulations related to tuition and fee discounts, waivers, and credit programs.

Because the policy revisions took place in May 2017, there is not enough data to determine if the changes will bolster THEC’s role in coordinating the FOCUS Act. However, future audits of THEC could assess the effects of the changes.

DRIVE TO 55 AND TENNESSEE PROMISE

Following the Complete College Tennessee Act of 2010, Governor Haslam implemented the Drive to 55 initiative in 2013 to increase the number of Tennesseans with a postsecondary degree or credential to 55% by 2025. The focus is to ensure that more residents are equipped with the skills and

credentials needed to support the state’s economy in the future. The Drive to 55 initiative implemented multiple strategies to reach the goal, including Tennessee Promise, Advise Tennessee, the Labor Education Alignment Program, and Tennessee Reconnect. Our objectives for this area were to identify and evaluate Drive to 55 and Tennessee Promise goals; progress toward meeting those goals; and resulting changes in structure, oversight, enrollment, and system capacity.

Tennessee Promise

Tennessee Promise, implemented in 2015, is an initiative focused on increasing the number of recent high school graduates who attend college in Tennessee. The initiative provides students a last-dollar scholarship, covering tuition and fees not covered by the federal Pell grant, the state HOPE scholarship, or other state student assistance funds. The scholarship may be used for two years at any of the state’s community colleges, colleges of applied technology, and private entities that offer associate’s degrees. To receive and retain this scholarship, students must enroll full-time at an eligible entity in the fall immediately after graduating high school; complete their Free Application for Federal Student Aid (FAFSA) annually; attend three informational meetings; complete eight hours of community service per term; and maintain satisfactory academic progress. Along with the financial aid, students are assigned a mentor to guide them through the application and enrollment processes. After beginning in fall 2015, the first cohort of Tennessee Promise students transferring from a community college to a four-year university will do so in fall 2017. Table 3 details the enrollment and distribution of students across postsecondary entities.

Table 3
Tennessee Promise Enrollment and Distribution
Fall 2015 and 2016

	Number of Students Enrolled Using Tennessee Promise	Percentage Enrolled in Community or Public College Associate’s Degree Programs	Percentage Enrolled in College of Applied Technology Certificate Programs	Percentage Enrolled in Private Entity Associate’s Degree Programs
Fall 2015	16,291	85%	13%	2%
Fall 2016	16,790	86%	10%	4%
Overall	33,081	86%	11%	3%

Source: Tennessee Higher Education Commission.

In fall 2015, 16,291 students enrolled in a postsecondary entity with Tennessee Promise, resulting in a 24.7% increase in enrollment at community colleges and a 20% increase at colleges of applied technology. Since the implementation of Tennessee Promise, between fall 2014 and fall 2016 first-time freshmen enrollment has grown by 13% overall, with increases of 30% at community colleges and 32% at colleges of applied technology. Initially, Tennessee Board of Regents (TBR) community colleges and colleges of applied technology experienced a significant increase in enrollment, while the University of Tennessee system and TBR universities experienced a slight decrease in enrollment. Table 4 shows the retention rates of Tennessee Promise students for postsecondary entities from year 1 to year 2. The retention rate for Tennessee Promise first-time community college freshmen was 58%. In contrast, the retention rate for non-Tennessee Promise first-

time community college freshmen (including part-time students) was 42%. The Tennessee Higher Education Commission’s (THEC) preliminary outcomes indicate that Tennessee Promise students are retained at or above non-Tennessee Promise students, at least at community colleges.

Table 4
Postsecondary Retention Rates
Academic Year 2015-2016

Year 1 to Year 2 Tennessee Promise Students	Community College Tennessee Promise Students	Colleges of Applied Technology Tennessee Promise Students	Community College Non-Tennessee Promise Students*
63%	58%	83%	42%

*For comparison to the retention rate of community college Tennessee Promise students.
Source: Tennessee Higher Education Commission.

Several of the state’s community colleges and colleges of applied technology are at or over capacity due to enrollment increases. Some of the colleges of applied technology, depending on their geographic locations and the programs of study offered, have students on a waitlist.

Tennessee Promise is financed by the Tennessee Promise Scholarship Endowment Trust, which was established in 2014 by transferring \$300 million from the Tennessee Education Lottery Scholarship reserve. The trust funds the Tennessee Promise awards from the interest generated by the trust, plus excess lottery scholarship funds needed. Table 5 indicates the average Tennessee Promise award per student and the program costs for academic years 2016, 2017, and 2018.

Table 5
Tennessee Promise Award Amounts and Program Costs
Academic Years 2015-2016 Through 2017-2018

Academic Year	Average Tennessee Promise Award per Student	Tennessee Promise Program Cost
2015-2016	\$850*	\$15.2 million
2016-2017	\$1,090	\$25.3 million
2017-2018	-	\$33 million**

*Includes students who did not receive Tennessee Promise funds because their tuition was fully covered by other financial aid; excluding those who received \$0, the average award was \$1,700.

**Anticipated cost at program maturity.

Source: Tennessee Higher Education Commission.

Advise Tennessee

Advise Tennessee, a program of the Drive to 55 initiative, partners THEC with 30 high schools across the state to increase the number of graduates accessing higher education by advising up to 10,000 junior and senior students. Tennessee high schools with a graduation rate under 58% applied to be part of this program, and those in the most need were assigned to an advisor. The school’s advisor meets with students to develop plans, coordinates visits to postsecondary institutions, and hosts financial aid workshops and application events. There has already been a measurable increase in FAFSA submissions because of Advise Tennessee. In academic year 2016-

2017, students at participating Advise Tennessee schools submitted 16% more FAFSAs after implementation. These services, intended to continue and expand, position students to make the best decision regarding a postsecondary institution.

Labor Education Alignment Program

The Labor Education Alignment Program (LEAP) enables high school students to access professional training courses through community colleges and colleges of applied technology. These programs are developed using state grants and guidance from area employers and industry leaders to encourage and facilitate the alignment of the local workforce and educational partners. This collaboration and alignment occurs among regional partners, such as K-12 schools, higher education entities, workforce development professionals, and employers. This program allows industry leaders to provide direct feedback concerning which higher education programs are needed to train skilled workers for their businesses.

In 2014, LEAP 1.0 provided \$10 million to communities throughout the state. Twelve selected proposals received funding to address skills gaps in sectors such as advanced manufacturing, mechatronics, and information technology. In this first round of LEAP, students from 51 counties benefited from the skills training offered. In 2016, an additional \$10 million allowed LEAP 2.0 to continue and expand. Twelve more funded proposals spread LEAP services to 67 counties, addressing skills gaps in sectors such as advanced manufacturing and healthcare, and expanding work-based learning opportunities throughout the state.

Tennessee Reconnect

Tennessee Reconnect is an initiative to help adults age 25 and over access higher education, so that they may advance in the workplace by gaining new skills. This initiative is an extension of Tennessee Promise, to allow last-dollar scholarships for adults to attend community college tuition-free. Students must be Tennessee residents, enroll full-time, and maintain continuous enrollment and academic progress. The initiative was implemented at the colleges of applied technology in 2015 and will be implemented at the community colleges in 2018. THEC anticipates that, at program maturity, 20,000 to 25,000 students will participate in Tennessee Reconnect at the community colleges.

Tennessee Reconnect Communities support residents in pursuit of a postsecondary credential or degree by providing services including advising, counseling, and financial aid resources. Currently there are eight Reconnect communities throughout the state. These communities provide a connection between postsecondary entities, students, and industry leaders to create a network that benefits the local economy by providing employers with skilled workers and residents with higher education opportunities and resources.

The Veterans Reconnect Program awards grants to postsecondary entities to improve the success of students with military experience. Beginning in 2015, THEC awarded grants to 11 entities. In 2016, THEC awarded grants to 6 entities. These funds have established and expanded campus veteran centers and have provided faculty and staff with professional development on the specific needs of veteran students. THEC plans to award additional Veterans Reconnect grants in 2017.

Drive to 55 Results

To determine the postsecondary attainment rate for the state, THEC uses data from the American Community Service census. Census data reflects information regarding the state's residents and takes state migration into consideration. This count includes the highest degree per person, whether that is a certificate, associate's degree, or bachelor's degree.

In 2012, 33.8% of Tennesseans held an associate's degree or higher. Currently, Tennessee's postsecondary attainment rate is 39.3%, including certificates, associate's degrees, and bachelor's degrees.

Drive to 55 is a higher education goal for the entire state. THEC determined that 871,309 credentials need to be produced within the state by 2025 to meet the goal. While THEC set ideal trajectories for reaching this number, THEC did not set binding goals for systems or institutions as the commission is coordinating, rather than governing. TBR, in collaboration with THEC, set goals for the system and its entities. The TBR institutions are currently exceeding their target numbers, and in turn, the system is on track to surpass its goal. While the University of Tennessee did not set goals for its individual institutions, there is a system-wide goal developed from state projections. The UT system is also on track to meet its goal. THEC believes that the state is on target to meet the Drive to 55 goal, especially with the increase due to Tennessee Reconnect. There are differences in opinion within the higher education systems and institutions on whether the goal will be met and, if met in 2025, whether the 55% goal will be sufficient for the state's future economic needs.

TENNESSEE TRANSFER PATHWAYS

The Complete College Tennessee Act of 2010 requires all state institutions of higher education to collaborate and develop transfer pathways. Specifically, Section 49-7-202(r)(1-2), *Tennessee Code Annotated*, states that the Tennessee Higher Education Commission (THEC) "shall require a pathway for at least the 50 undergraduate majors most in demand" and that each pathway must provide 60 hours of transferrable instruction in a designated major, with 41 hours of general education and 19 hours of pre-major or elective courses.

The Tennessee Transfer Pathways are designed to expedite community college students' progression toward a bachelor's degree and to provide students with education program maps that include specific course sequences aligned with the requirements of a four-year institution. From the start, students are helped to understand academic and career options, choose a program of study, and develop a plan based on the pathways. Because faculty are involved in developing them, the pathways also facilitate efforts by faculty to ensure that students are building knowledge and skills that will allow them to succeed in furthering their education.

Our objective was to assess the status of the pathways and THEC's plans for continued monitoring and updating under the FOCUS Act. We interviewed staff and academic officers of THEC; the Tennessee Board of Regents (TBR) and its community colleges; and the University of Tennessee (UT) system. We reviewed documentation related to the development and monitoring of the pathways.

Process to Establish a Pathway

In determining pathways, THEC is required by Section 49-7-202(r)(2)(A), *Tennessee Code Annotated*, to “consider the views of the chief academic officers and faculty senates of the respective campuses.” To accomplish this, THEC established the UT-TBR-TICUA (Tennessee Independent Colleges and Universities Association) Articulation and Transfer Council to provide oversight for the pathways. The council includes institutional members (chief academic officers, presidents, and faculty) and ex-officio members from THEC, TBR, UT, and TICUA. (THEC invited TICUA to participate in the pathways in 2012. As of July 2017, 21 private nonprofit institutions accept all or some of the existing transfer pathways.) The council meets annually to consider and approve needed updates related to the pathways.

According to THEC management, this process of convening the council and including community college and university faculty has proven to be an effective method to develop pathways. Using data from THEC’s student information system, THEC staff analyzed the academic programs by transfer student status to determine the 50 most in-demand undergraduate majors. As of July 2017, 65 pathways provided community college students with seamless transfer to any participating 4-year or TICUA institution that offers the bachelor’s degree in those majors. Each pathway provides a list of all courses, including general education courses and major-specific electives, required to meet the pathway’s degree requirement. According to an April 2016 study by the Education Commission of the States, Tennessee is one of 32 states with a statewide guarantee transfer of an associate’s degree.

Tennessee Transfer Pathways Website

The Tennessee Transfer Pathways website (www.tntransferpathway.org) is the principal method of communicating information about transfer pathways. The website, developed and maintained since 2011 through a TBR contract with Tennessee Technological University, is a comprehensive, one-stop reference point for students, faculty, advisors, and administrators. It includes the transfer guarantee and provides information for students, such as a curriculum for each pathway, curricular maps that provide a four-semester sequence for completing each pathway, and the mechanics of the transfer process. The website provides career and employment opportunity information for each transfer pathway. Each participating four-year university and community college campus lists a pathways coordinator and contact information (see Exhibit 1 for an example of a curricular map).

Tennessee Transfer Pathways Guarantee
Courses in a transfer pathway shall transfer and apply toward the requirements for graduation with a bachelor’s degree at all public universities.

Exhibit 1
Tennessee Transfer Pathways
Business Administration Curricular Map
Tennessee Transfer Pathways Website

BUSINESS ADMINISTRATION	(Major)	ASSOCIATE OF SCIENCE	(Degree)
PROGRAM REQUIREMENTS			
SEMESTER & COURSES	CREDIT HOURS	SEMESTER & COURSES	CREDIT HOURS
<i>Semester 1 (Fall)</i>		<i>Semester 2 (Spring)</i>	
English 1010: Composition I	3	English 1020: Composition II	3
MATH 1530 Probability/Statistics***	3	MATH 1630 Finite Mathematics OR College Algebra (MATH 1130 or MATH 1710)*	3
ECON 2010 Macroeconomics	3	ECON 2020 Microeconomics	3
INFS 1010 Computer Applications	3	Speech	3
History	3	History	3
Subtotal Semester 1		Subtotal Semester 2	
15		15	
<i>Semester 3 (Fall)</i>		<i>Semester 4 (Spring)</i>	
Humanities/Literature	3	Humanities/Fine Arts	3
Humanities/Fine Arts	3	GUIDED ELECTIVES	4
Natural Science (lab)	4	Natural Science (lab)	4
ACCT 1010 Principles of Accounting I	3	ACCT 1020 Principles of Accounting II	3
MATH 1830 Calculus for Business**	3		
Subtotal Semester 3		Subtotal Semester 4	
16		14	
		Total Credit Hours	
		60	
NOTES:			
*Students transferring to APSU, ETSU, MTSU, TSU or UT Knoxville should take MATH 1630. Students transferring to TTU, University of Memphis, UT Chattanooga or UT Martin should take a college algebra course.			
87Calculus for Business or equivalent is NOT required at UT Martin, APSU or MTSU.			
***Students who plan to transfer to UT Knoxville should complete MATH 2050, Calculus-based Probability and Statistics.			

Source: Tennessee Transfer Pathways website.

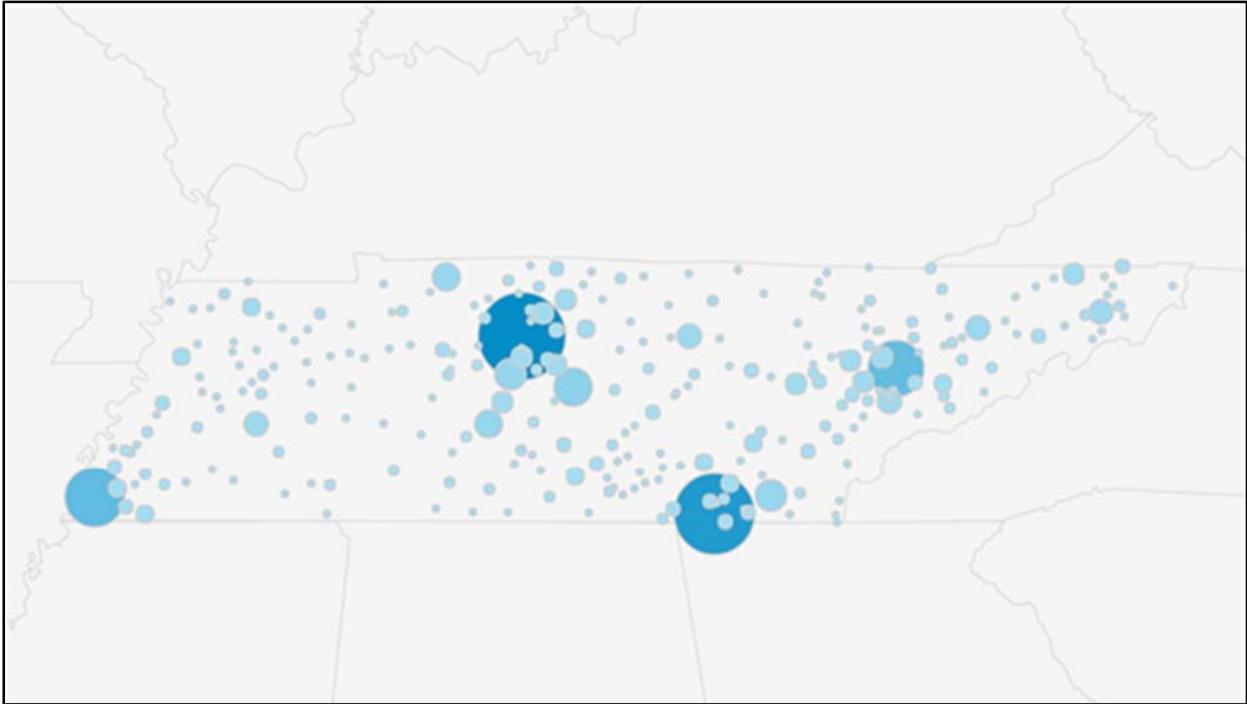
The website provides students a way to research pathways by majors, institutions, and focus areas. The focus areas are meant to assist students who have not chosen a specific degree program with choosing a broad direction for their studies. The eight focus areas are 1) Applied Technology; 2) Arts; 3) Business; 4) Education; 5) Health Sciences; 6) Humanities; 7) Social Sciences; and (8) Science, Technology, Engineering, and Math.

In addition to the pathways curriculum and contacts, the website has information to ensure students are knowledgeable about the entire transfer process. For example, the website includes a list of six “Steps for a Successful Transfer” with descriptive guidance for each step. Other material to assist students in their understanding of the pathways is under the topic “What Do I Need To Know?” This topic includes information such as the following:

- the student is responsible for following the pathway exactly to ensure all hours are transferred;
- not every community college offers every pathway, but links on the Tennessee Transfer Pathway website lead to information about whether a community college offers a specific pathway; and
- upon transfer to a university, students must complete all of the university’s upper-division course requirements, which can be found in the university’s catalog.

In July 2017, the redesigned website added an updated mobile application since most potential and current students use the mobile application. Tracking website activity provides information to TBR and the community colleges. For example, between July 2016 and July 2017, 93,953 users visited a total of 127,274 times. The most popular page viewed was the Transfer by Major page (see Exhibit 2 for views by location). Each institution’s page on the website has a web form allowing users to directly contact the institution, and each page logs the number of submissions to that institution. For mobile application users, the contact’s phone number appears as a link that, when pressed, opens the phone’s dialer and calls the campus contact.

Exhibit 2
Tennessee Transfer Pathways
Analytics Summary of Views by Location
July 2016 to July 2017



Location	Percent of Total Views
Nashville	18%
Chattanooga	15%
Memphis	8%
Knoxville	8%
Murfreesboro	3%
All others	48%

Source: Tennessee Technological University.

Number of Pathway Students and Top Five Pathway Programs

From fall 2012 to fall 2016, the number of community college students in a pathway increased from 9,517 to 16,864, and the Business Administration pathway consistently had the largest student enrollment. In academic year 2016-2017, 1,033 associate's degrees were awarded to students who completed a pathway (see Tables 6, 7, and 8).

Table 6
Tennessee Transfer Pathways
Community College Fall Enrollment

Term	Number of Pathway Students	Annual Percentage Increase
Fall 2012	9,517	-
Fall 2013	13,153	38%
Fall 2014	14,743	12%
Fall 2015	16,620	13%
Fall 2016	16,620	1%

Source: Tennessee Board of Regents.

Table 7
Tennessee Transfer Pathways Programs With Largest Fall Enrollment

Program Rank	Fall 2012	Fall 2013	Fall 2014	Fall 2015	Fall 2016
First	Business Administration	Business Administration	Business Administration	Business Administration	Business Administration.
Second	Psychology	Psychology	Psychology	Pre-Health Profession	Pre-Health Profession
Third	Pre-Health Profession	Pre-Health Profession	Pre-Health Profession	Psychology	Psychology
Fourth	Criminal Justice				
Fifth	Biology	Accounting	Accounting	Accounting	Biology

Note: In 2016, the top five programs accounted for approximately 35% of pathways enrollment.

Source: Tennessee Board of Regents.

Table 8
Tennessee Transfer Pathways
Graduates With Associate's Degrees

Academic Year	Number of Degrees	Annual Percentage Increase
2012-2013	289	-
2013-2014	564	95%
2014-2015	678	20%
2015-2016	872	29%
2016-2017	1,033	18%

Source: Tennessee Board of Regents.

THEC management and pathway coordinators called the website a comprehensive tool for their use in advising students. In addition to the website information, a Tennessee Transfer Summit held in February 2017, with speakers from THEC, TBR, and UT, provided training to staff working with the pathways. THEC, TBR, and UT staff, as well as pathway coordinators, said the pathways have eliminated one-on-one articulation with four-year schools and made transferring credits seamless with few, if any, problems.

THEC Continued Oversight of Pathways

Five-year Review Cycle

The Articulation and Transfer Council established a five-year review cycle for the pathways. Each year of the cycle, the council reviews a different discipline. In 2016, the first year of the review, the council reviewed Business pathways. Beginning with the 2017-2018 academic year, Social Sciences and Educational pathways will have a formal review. This review process of existing transfer pathways will ensure course requirements are current.

THEC Articulation and Transfer Policy Plans

To fulfill the responsibilities of the 2016 FOCUS Act, since July 2017, THEC has been meeting each January and July with the chief academic officers from all community colleges and four-year universities. THEC will also form a subcommittee of constituents at the community colleges and universities to formalize the roles and responsibilities of the Articulation and Transfer Council. The subcommittee will be chaired by THEC to establish the functions of the council and draft a new articulation and transfer policy with the intent to ensure that the transfer process and pathways continue to be “efficient, predictable, and sensitive to student needs.” Under the FOCUS Act, the four-year universities, previously in the TBR academic umbrella, are self-governing; therefore, the new policy will ensure that the pathways continue to expedite community college students’ progression toward a bachelor’s degree. The new articulation and transfer policy will be disseminated to the two systems (TBR and UT), the four-year universities, and TICUA institutions for feedback. The proposed policy will be presented for approval at a future THEC meeting (no later than January 2018).

Based on the above information, the Tennessee Transfer Pathways provide the seamless transfer to students mandated by the Complete College Act of 2010. THEC, in collaboration with TBR and UT, created a pathways development process and instituted review procedures to continue the success of the pathways. In 2018, THEC will implement an articulation and transfer policy as part of its higher education oversight per the FOCUS Act.

TENNESSEE REVERSE TRANSFER PROGRAM

The Tennessee Reverse Transfer program allows students who have transferred from participating Tennessee two-year institutions to a participating Tennessee four-year institution to combine credits from both and apply them toward an associate’s degree. This means transfer students can complete the associate’s degree they started at the community college while working toward a bachelor’s degree at a four-year institution.

Our objective was to determine the number of students who have opted in to the program, the number of associate’s degrees awarded, and the method used to give higher education institutions funding formula credit for awarding reverse transfer degrees. We obtained and reviewed Tennessee Reverse Transfer program policies, procedures, and guidelines, as well as data on degrees awarded. We interviewed staff at the Tennessee Higher Education Commission

(THEC), the University of Tennessee (UT) system, the Tennessee Board of Regents (TBR), and community colleges.

Statutory History

Effective April 2012, Section 49-7-150, *Tennessee Code Annotated*, “authorizes and encourages” the TBR community colleges to enter into reverse transfer agreements with the TBR and UT universities and with private higher education institutions accredited by the Southern Association of Colleges and Schools Commission on Colleges (SACSCOC). The TBR universities and the UT system were also authorized and encouraged to enter into reverse transfer agreements with the TBR community colleges. Currently, the 13 TBR community colleges, 9 public 4-year universities, and 6 private 4-year universities participate in the program.

Establishing Reverse Transfer Policy and Governance

In July 2012, a task force composed of staff from THEC, TBR, the Tennessee Independent Colleges and Universities Association (TICUA), and the UT system met and developed an academic policy and procedures for implementing the reverse transfer process. *Reverse Transfer: Policies, Procedures, and Guidelines* applies to all public and participating private institutions in Tennessee. That policy defines potential reverse transfer degree candidates as students 1) currently enrolled at a Tennessee 4-year institution and previously enrolled as degree-seeking students at a Tennessee associate’s degree-granting institution; 2) who have earned a minimum of 15 college credits toward an associate’s degree at the associate’s degree-granting institution; and (3) who have earned a combined minimum of 60 total college-level credits.

Additional policy requirements are the following:

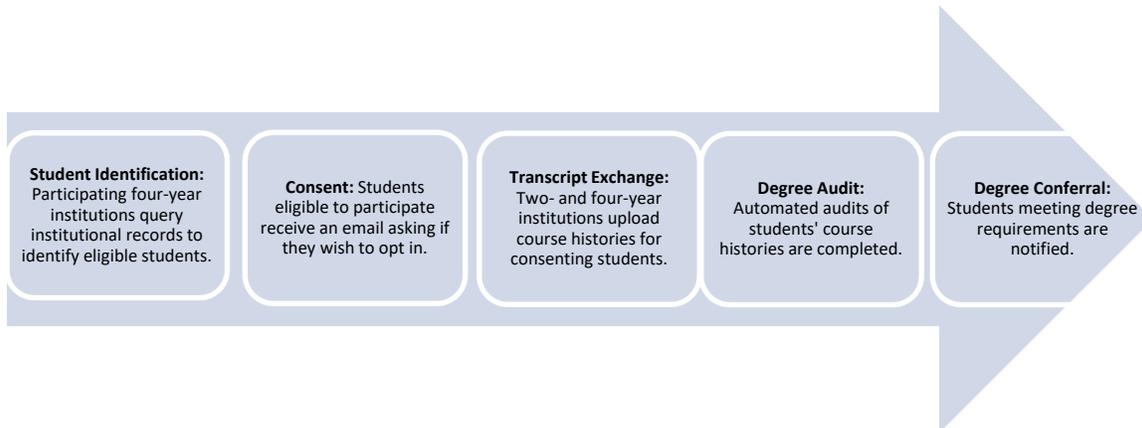
- the associate degree-granting institution is responsible for verifying degree completion and awarding the degree;
- policies and procedures must comply with SACSCOC’s standards of accreditation;
- candidates must adhere to the catalog requirements of the degree-granting institution;
- student information used to facilitate reverse transfer awards must comply with Family Educational Rights and Privacy Act (FERPA) guidelines and applicable State of Tennessee statutes; and
- UT’s Center for Business and Economic Research must house and maintain the server and have primary responsibility for the stored data (demographic and academic), as well as the data extracted for evaluation and reporting purposes.

The UT-TBR-TICUA Articulation and Transfer Council oversees the reverse transfer process and policies and has the authority to modify if needed.

The Reverse Transfer Process

UT received a grant from the Lumina Foundation and state funding for automated degree audit software, staffing, and training costs of community college and university personnel to implement the Reverse Transfer Program. Staff use a transcript analysis software system for the screening degree audit to determine whether a student is eligible for an award.

Exhibit 3 Reverse Transfer Process



Source: Auditors' analysis of information provided by the Tennessee Board Regents and the University of Tennessee.

Student Identification

Participating four-year institutions query institutional records each spring and fall semester (for May and December degree awards) to identify potential reverse transfer degree candidates. Criteria include 1) current enrollment at a participating 4-year Tennessee university, 2) a minimum of 15 earned college-level credits from a Tennessee community college to satisfy residency requirements of SACSCOC, 3) transfer from a Tennessee community college before earning a degree, and 4) 60 college-level credits completed post-transfer.

Consent

The four-year institutions send emails to the students identified in the query as eligible to participate in the reverse transfer process. Students must consent to the sharing of their two- and four-year course histories by “opting in” to meet the requirements of FERPA guidelines.

Transcript Exchange

Once the four-year institution obtains written permission from the students, two- and four-year institutions upload the students' course histories into the Reverse Transfer System (RTS).

Screening Degree Audit

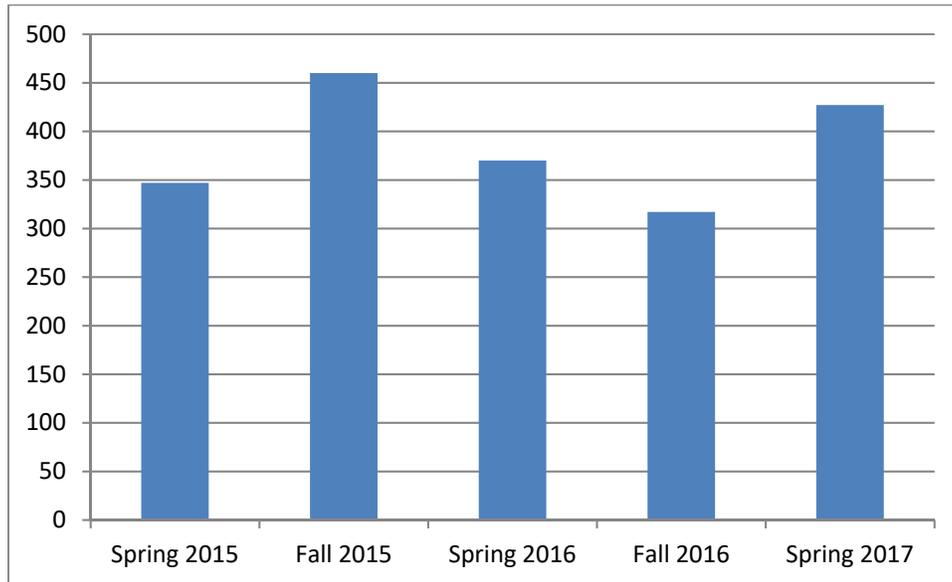
RTS runs a screening degree audit on all students who opted in, mapping each student’s course history against program requirements. RTS identifies students that have met, or are close to meeting, the requirements for an associate’s degree, and their degree audits are available for review by the community college.

Degree Conferral and Advising

Students meeting degree requirements are notified by the two-year college and are conferred a degree. Students who do not meet degree requirements are informed by the two-year college of any requirements needed for completion. Those students are contacted again the following semester. The most common reason for not awarding a degree is that the student has not completed the required general education courses.

Tennessee elected to implement RTS in phases, beginning in January 2015 for May 2015 awards. From spring 2015 to spring 2017 (5 semesters), 7,476 of 35,324 eligible students (21%) opted in to the program, and 1,921 associate’s degrees were awarded.

Chart 1
Reverse Transfer Degrees Awarded by Semester



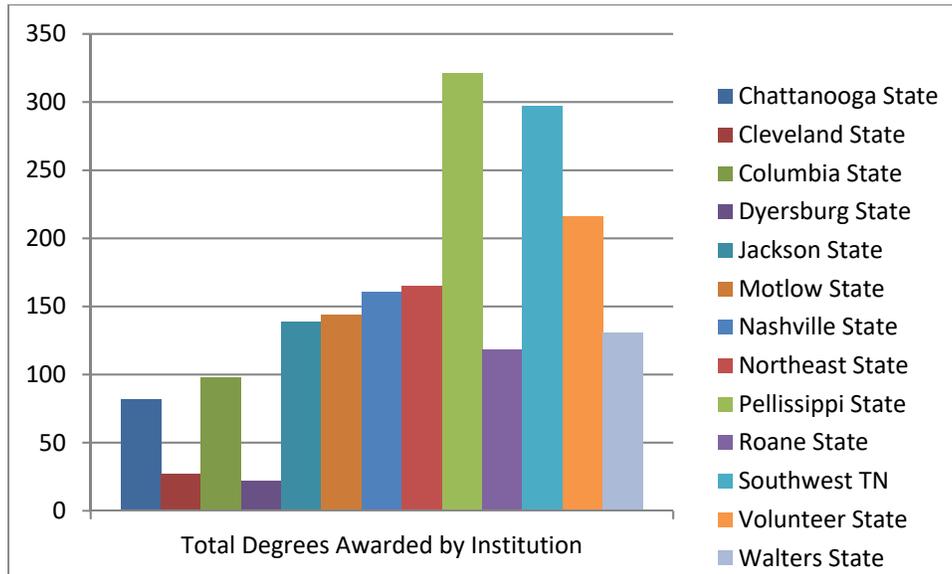
Source: Auditor’s analysis of information provided by the Tennessee Higher Education Commission.

Reverse Transfer Awards and the Outcomes-Based Funding Formula

In order to “reflect a spirit of full collaboration among Tennessee institutions of higher education and to reward participating Tennessee institutions accordingly,” THEC provides a benefit to both the two-year and four-year institutions. In the outcomes-based funding formula, partner institutions receive half of the outcome credit for each award (the community college and

four-year institution each receive roughly half credit for a degree), encouraging collaborative participation and recognizing the institutional work to identify students, audit transcripts, and award degrees.

Chart 2
Reverse Transfer Degrees Awarded by Community Colleges
as of Spring Semester 2017



Source: Tennessee Higher Education Commission and the University of Tennessee.

Benefits of the Program

Based on our review of the program, the Tennessee Reverse Transfer Program is contributing to college completion goals and increasing the number of adults with a postsecondary credential. According to THEC’s *2015-16 Articulation and Transfer in Tennessee Higher Education* report, 22,362 students in academic year 2015-2016 were new transfer students, and 4,983 of those students had more than 60 hours of college credit without earning an associate’s degree. Higher education staff interviewed said that an associate’s degree is a valuable job-seeking credential for undergraduate students working their way through college and, for transfer students, a reverse degree award provides a stamp of accomplishment and is a motivating factor to finish the four-year degree. On the institutional side, both community colleges and four-year universities benefit from the program’s impact on graduation rates, measures that feed into the state funding formula, and national rankings.

TUITION

Tennessee Higher Education Commission

Following finalization of the state budget, the Tennessee Higher Education Commission (THEC) makes tuition and fees recommendations, using a tuition model based on the previous year's revenue per full-time enrollment and accounting for inflationary factors, appropriation amounts, enrollment predictions, and peer institutions' revenue per full-time enrollment. Historically, THEC has made tuition recommendations for the higher education institutions; following the FOCUS Act, THEC is responsible for determining a binding range for tuition increases for the institutions. The binding range set for academic year 2017-2018 is 0 to 4%. Our objective was to evaluate the processes for, and THEC's oversight of, tuition and fee rate adjustments, and major strategic plans undertaken by the institutions to minimize tuition increases.

Tennessee Board of Regents

The Tennessee Board of Regents (TBR) sets tuition rates for the community colleges and Tennessee Colleges of Applied Technology (TCATs). Tuition has traditionally been determined on a cost basis, to cover institutional costs remaining after the state appropriation is applied. Tuition decisions are finalized after the state appropriation for higher education is determined, and the proposed tuition increase goes before the board for approval at the June board meeting. The current funding formula for community colleges is approximately 60% state appropriations and 40% tuition; for TCATs, about 70% state appropriations and 30% tuition. For the community colleges, tuition, or charges per credit hour, are the same across all institutions, but mandatory fees vary. Both tuition and mandatory fees are the same across all TCATs. For 2017-2018, the increase in tuition and fees for community colleges and for TCATs was 2.6%.

University of Tennessee System

The University of Tennessee (UT) Board of Trustees oversees its process for determining tuition recommendations through the board's Subcommittee on Tuition, Fees, and Financial Aid and the Finance and Administration Committee. In 2015, the President's Budget Advisory Group set the Higher Education Price Index boundary for tuition. The subcommittee's recommendation is placed on the appropriate Board of Trustees meeting agenda for discussion and final approval by the full board. On June 22, 2017, the board approved a 1.8% increase for in-state undergraduate tuition.

Strategies Toward Future Funding Uncertainties

Tennessee Board of Regents

TBR strategies aim to help institutions create more revenue by improving efficiency to reduce costs. For community colleges, this includes improving performance on outcome measures to increase funding share. Aimed at increasing retention following freshman year, funding for "success coaches" is a high priority in TBR's budget request for the 2018-2019 academic year; the request will be for an average of 10 coaches per community college. The coaches, if funded, will

each be assigned 100 to 150 freshmen and will be the point of contact for all questions, such as help with financial aid sources and scheduling issues.

TBR is also creating a Shared Services Center, housed at the TBR central office, which will consolidate administrative functions such as human resources and payroll for TCATs, and will bring all TCATs together into a single version of Banner (its administrative information technology system), allowing students to register and pay online beginning spring 2018. TBR staff believe the Shared Services Center will increase efficiencies for TCATs.

In September 2014, TBR adopted an Institutional Financial Performance Review policy, which requires an annual financial assessment of each community college and TCAT, using a metric known as the Composite Financial Index. Institutions with scores in the deficient range must submit plans for improving deficient areas.

TBR staff described TCATs as more vulnerable to a decrease in funding than community colleges, because state appropriations make up a larger portion of their operating revenue, and because they are relatively small institutions. TBR has greater latitude in shifting funds between TCATs, which do not have outcome-based funding, according to emerging needs.

University of Tennessee System

The UT Budget Advisory Group (BAG) was established in 2015 when UT President Dr. Joe DiPietro publicly announced that the UT funding model was unsustainable. At the February 26, 2015, UT Board of Trustees meeting, Dr. DiPietro announced that

State appropriations to higher education have been stagnant or declining for several years. This is not the result of lack of support for higher education by the Governor or the General Assembly but more due to budget realities that we do not expect to improve.

Higher education has responded to the decline in state appropriations by increasing tuition, providing no salary increases to faculty and staff, not filling, or eliminating, vacant positions, and becoming more efficient in the delivery of instruction, research, and public service. We take responsibility for these decisions in the past, but as we look to the future, we have concluded that current resources to fulfill our mission are unsustainable. We own the fact that our business model is broken, and we are committed to fixing it.

Realizing that additional funding was not expected to be forthcoming from the state and acknowledging that continued tuition increases are untenable, Dr. DiPietro appointed a system-wide group of faculty, staff, administrators, and students to serve as members of the BAG to develop a two-year plan to increase revenue, cut costs, establish parameters and internal controls, and establish goals that would allow campuses to better address needs around short- and long-term priorities that could be the focus for reallocation of new revenue and cost savings. See Appendix 6 for specific details of the original BAG Scenario & Boundaries and Action Plan (for fiscal years 2016 and 2017).

In January 2017, the advisory group was extended until June 2019 to assess progress; seek additional recommendations; and continue UT’s work to achieve a long-term, sustainable financial model for the university. With support of the UT Board of Trustees’ new Subcommittee on Cost Savings and Efficiency, efforts began to develop BAG 2.0. The information in Exhibit 4 was presented at the June 22, 2017, UT Board of trustees meeting.

Exhibit 4
University of Tennessee Budget Advisory Group Projections in Millions of Dollars
Fiscal Year 2016 Compared to Fiscal Year 2025

Fiscal Year 2016	Original BAG Projections	Actual Financial Results	Difference
State Appropriations	\$501.2	\$517.4	\$16.2
Tuition & Fee Revenue	625.4	655.2	29.8
Other Revenue	989.4	1,041.7	52.3
Total Revenue	\$2,116.0	\$2,214.3	\$98.3
Funding Requirements*	\$2,159.3	\$2,253.2	(\$6.1)
Funding Gap: Surplus/(Deficit)	<u>(\$43.3)</u>	<u>\$61.1</u>	<u>\$104.4</u>

*“Funding Requirements” include total current fund expenditures, mandatory transfers (debt service), and 20% of the estimated salary gap.

Fiscal Year 2025	Original BAG Projections	Actual Financial Results	Difference
State Appropriations	\$501.2	\$572.5	\$71.3
Tuition & Fee Revenue	816.0	854.9	38.9
Other Revenue	1,287.1	1,359.2	72.1
Total Revenue	\$2,604.3	\$2,786.6	\$182.3
Funding Requirements	\$2,981.7	\$2,908.9	(\$72.8)
Funding Gap: Surplus/(Deficit)	<u>(\$377.4)</u>	<u>(\$122.3)</u>	<u>\$255.1</u>

Source: University of Tennessee.

In 2015, the projected gap was \$377.4 million (expenses exceeding revenues) by fiscal year 2025. After two years, the projected gap for fiscal year 2025 is estimated at \$122.3 million, a reduction of \$255.1 million. Dr. DiPietro explained that the gap is so much smaller than the original due to the following:

- Actual financial results in the base year were far more favorable than the original assumptions: a \$61.1 million surplus rather than a \$43.3 million deficit. (The 3-3-0 model is very sensitive to changes in base-year numbers.)
- State appropriations have grown by an additional \$58.1 million since the base year, further reducing the projected fiscal year 2025 funding gap.

The UT system’s approach in addressing its continued long-term sustainability is based on the following model and financial assumptions (July 2017 to 2019):

- The Higher Education Price Index (HEPI) will average less than or equal to 3% (the HEPI rate will be used as an annual basis for setting tuition).
- Non-state revenue growth will average 3% (this includes tuition, auxiliary income, and other revenue streams).
- Estimated annual Education and General state appropriation increases will be 0%.
- State capital maintenance support will be funded at the historical average.

The BAG recommended the following goals for 2017 to 2019:

<u><i>Academic Programs</i></u>	Secure more accurate data on UT academic program costs and productivity, which can serve as the basis for the development of plans by each campus and institute to determine an ongoing approach for program investment and retaining, enhancing, reorganizing, merging or phasing out programs.
<u><i>Funds Reallocation</i></u>	Reallocate system and campus funding from areas of low productivity and efficiency to strategic priorities, critical programs and other high-return opportunities.
<u><i>Research</i></u>	System-wide, research and sponsored program expenditures should increase 6% annually (based on the most current 5-year average).
<u><i>Development</i></u>	System-wide, the total number of gifts, pledges, and bequests should increase 15% per year (based on the most current 5-year average).
<u><i>Human Resources</i></u>	System Human Resource operations will be strengthened and streamlined for increased system-wide effectiveness, efficiency and cost-savings.

FUNDING FORMULA

Community College and University Funding Formula

Tennessee’s outcomes-based funding formula is a result of the Complete College Tennessee Act of 2010, Section 49-7-202, *Tennessee Code Annotated*. Prior to the act, funding for Tennessee’s higher education institutions was heavily based on an institution’s enrollment numbers. The Tennessee Higher Education Commission (THEC) worked with higher education stakeholders to devise multiple outcomes to measure student progress; degree achievement; and other desired outcomes such as job placement and research funding. Other factors, such as institutional missions and meeting quality standards are also considered in funding.¹

¹ Additional information about Tennessee’s outcomes-based funding formula can be found in the Comptroller of the Treasury’s *Funding Tennessee’s Public Colleges and Universities: The Outcomes Based Funding Formula* report, issued in November 2017.

Our objective for this audit was to determine how student counts were compiled and utilized for funding, as well as major state initiatives.

Data Collection for the Funding Formula

Universities and community colleges consult a data dictionary prepared by THEC for guidance on correctly entering the data elements used in determining the funding formula outcomes into the higher education institutions' administrative information system, Banner. Each institution runs a program designed to extract the data, subjecting it to several layers of review before forwarding it to THEC, where staff perform further data checks.

The Tennessee Colleges of Applied Technology (TCATs) enter data into Excel spreadsheets, using multiple layers of manual checks. In 2018, the Tennessee Board of Regents (TBR) plans to implement the Shared Services Center, which will bring the TCATs into Banner and allow for extraction of their data similar to the other institutions.

TCAT Funding

While TCATs are accounted for in the funding formula, they are primarily funded through a cost- and enrollment-based formula. Factors considered are full-time enrollment numbers; student-instructor ratios; and costs such as maintenance and operations, staff benefits, and equipment replacement.

Overall, we noted no major concerns with the collection and use of data, including student counts, for the funding formula and other funding decisions regarding UT and TBR, including TCATs.

TENNESSEE BOARD OF REGENTS PROGRAMS AND INSTITUTIONS

Our objectives were to determine the Tennessee Board of Regents' (TBR) process for measuring the success of academic programs and community need for those programs at the Tennessee Colleges of Applied Technology (TCATs), and to determine what TBR identified as barriers to timely graduation at the community colleges and what action has been taken to lessen those barriers.

TCAT Programs' Success and Community Need

Based on discussions with TBR management, we determined that TCAT program success relates largely to its accrediting agency, the Council of Occupational Education (COE). This entity awards accreditation status to educational institutions or programs that meet or exceed criteria for educational quality and student achievement. Part of maintaining accredited status involves demonstrating that the majority of programs meet minimum required benchmarks for completion, placement, and licensure exam pass rates within a 12-month period. Accreditation also involves 3 potential employers reviewing each educational program annually for program length, objectives, competency tests, learning objectives, instructional materials, equipment, methods of

program evaluation, level of skills required for completion, and appropriate delivery formats for the subject to ensure that the training programs are current and that coursework is qualitatively and quantitatively relevant.

Based on discussions with TBR staff, if a program fails to meet the benchmarks set by the COE, the program has a one-year probationary period. If the program is still failing at the end of that period, it is abolished. With consistent review of program content, delivery, relevancy, and completion rates, it appears the TCATs have an adequate method for evaluating the success of both individual training programs and individual TCATs. Additionally, the Department of Economic and Community Development's (ECD) Director of Workforce Development reported that, informally, ECD receives a high percentage of positive feedback from the industry regarding the training offered and quality of employees hired at their companies from the TCATs.

As for job placement, each TCAT must submit placement data to COE. COE defines placement as

A completer of a program who (1) is employed in the field of education pursued or in a related field, or (2) has received the appropriate credential and entered the military or continued his/her education. Valid employment in the field or a related field includes placement in a permanent full- or part-time position with an employer or employment agency, or self-employment in the field of education or a related field.

Per TBR's Executive Vice Chancellor for Policy and Strategy, institutions can currently tell where students are employed, but not necessarily if they are employed in their exact field of study. For example, TBR staff can determine that a graduate from a surgical tech program is working in a hospital setting, but they do not know if the person is in a surgical tech position. There is also no consideration given to how long the person remains employed before he or she is considered placed. However, COE does require placement services, including advising and presenting employment opportunities, to be provided to student who completed a program.

Community Need

Every TCAT program has an Advisory Committee consisting of employers, industry professionals, or alumni who ensure the curriculum and skills taught are current with industry practice. These committees provide information and recommendations to aid the TCAT in effective operation; assess the needs of students and the local industry; and maintain knowledge of the newest equipment, methods, and technologies available. Furthermore, the committee make recommendations for the development of new programs and advise established programs. We spoke with ECD staff and determined that they work closely with TCAT staff when speaking with new industries. While they do not directly affect the development of programs, ECD staff do serve on the local labor councils, which participate on the TCAT Advisory Committees. ECD also works with Department of Labor and Workforce Development data and produces a report that highlights job supply and demand and all levels of education need in each ECD region of the state. Higher education institutions could use this report, which highlights the top 25 most in-demand fields in the state, to identify training needs in the ECD regions.

With the participation of local Advisory Committees and input from both ECD and the Department of Labor and Workforce Development, it appears that TBR does consider job supply and demand when making training program decisions at the TCATs. Furthermore, all TCATs are accredited and, as such, must meet goals related to job placement. If a training program is not meeting the placement goals, then TBR would likely delete that program to maintain the TCAT's accreditation.

Community College Graduation Rates

Based on the low graduation rates at community colleges, we spoke with the TBR Executive Vice Chancellor for Policy and Strategy and the Assistant Vice Chancellor for Research and Assessment regarding the issues TBR has identified as inhibitors to timely graduation and what TBR has done to address these issues. Per our discussions, the biggest inhibitors to students are choosing an area of focus; needing remedial classes; and dealing with non-academic, socio-economic issues.

Choosing an Area of Focus

One barrier to timely graduation identified by TBR was students failing to declare a specific major and thereby lacking a set path to graduation. To assist students, TBR implemented the Choice Architecture program, which allows students to choose from nine academic areas that are broader than a distinct major. These areas include Applied Technology, Arts, Business, Education, Health Professions, Humanities, Social Sciences, STEM, and exploratory General Education for students unable to identify with any of the other eight areas. Per TBR management, having students experiment in these focus areas to guide class selection does not hinder their later declaration of a major, as most classes in a focus area apply toward the academic major associated with those areas.

Along with this initiative, TBR has also implemented enhanced orientation and advising interventions to aid students with making decisions and identifying their area of interest. The data contrast before and after implementation is significant. In academic year 2013-2014, only 68% of students declared a major. As of academic year 2015-2016, 83% had chosen an area of focus at initial entrance. Advising the students after the initial choice is also integral to timely graduation as it keeps students on a path to completion, especially if they are not participating in a Tennessee Transfer Pathway. As part of this initiative, in academic year 2014-2015 faculty teams created default degree maps, or guided pathways, for each degree program, similar to those created for the transfer pathways. The results thus far have been an increase in community college freshmen attempting nine hours in their focus area, as well as a significant improvement in those students successfully earning nine credit hours in those areas. TBR's initial data analysis suggests that students who earn nine credit hours are more successful than their counterparts and that the graduation rates for those who simply attempt focus hours has increased, especially for minority students.

Remedial Classes

Per information from the Tennessee Higher Education Commission (THEC), nearly 70% of community college freshmen in Tennessee need remedial classes. Consequently, both TBR and

THEC have implemented initiatives to meet remedial needs. Beginning in fall 2015, TBR implemented co-requisite remediation for math, reading, and writing. In these areas, students no longer take traditional remedial courses, which typically take a full semester and cost as much as college-level courses but provide no credits. Instead, students are enrolled directly into the credit bearing class(es), but are also enrolled in a semester-long supplemental learning that focuses on helping students with learning skills, understanding concepts, and working to successfully complete the credit-earning class. All TBR universities (now locally governed institutions) and community colleges fully implemented this program in fall 2015. Per TBR documentation, 51% of students received a passing grade in the credit-earning course, compared to past documentation of only 12.3% of students achieving a passing grade when taking traditional remedial classes.

To mitigate the need for college level remediation, THEC implemented the Seamless Alignment and Integrated Learning Support (SAILS) program to target high school students who have not met college readiness benchmarks (based on ACT scores). This program is a blended model, using self-paced, computer-based instruction paired with teacher support in a computer lab. The math component was implemented in 2013, and the English component was piloted in 2017. According to THEC's 2015-2016 Fact Book, since 2013, over 16,000 students have completed the program. Currently, SAILS is in 239 high schools statewide, serving approximately 18,000 students. THEC reported a 91% completion rate for the math component for academic year 2014-2015.

Non-academic Issues

Non-academic issues impact student success and retention. As a result, 22 Tennessee postsecondary institutions have some type of emergency grant or loan program providing students with small grants to aid them with non-academic issues that affect their academic success. Such issues include transportation, such as a flat tire, or medical expenses. Some campuses even sponsor additional programs, such as Northeast State Community College, which offers students aid with food and community resources; the college also encourages faculty and staff to alert the administration when students may be experiencing issues outside of school that are affecting their performance. (The program is funded from locally raised money.) For the 2017-2018 budget cycle, THEC proposed allotting \$1,000,000 to implement a statewide system for student retention grants. Funding would have allowed for awards to aid with items such as vouchers and fees; books and program fees; and third-party payments to landlords, medical practices, and childcare facilities. The proposal for funds was not granted.

Overall, the research at TBR and THEC reveals that these programs, while recently implemented, improve student success toward timely completion. Because these programs are in the early stages, we did not audit the results. However, these could be included in a future audit.

Community College Graduation Rates

Currently, the Tennessee Higher Education Commission (THEC) reports data for graduation rates in Tennessee based on a six-year graduation rate for all four-year (university) and two-year (community college) institutions. The six-year calculation for community colleges takes into consideration that community college students, who are frequently transient and part-time students, may not graduate within the standard program length of 2 years. However, some other sources, such as the United States Department of Education’s Integrated Postsecondary Education Data Systems (IPEDS), calculates community college graduation rates based on a different standard. Therefore, while the differences are understandable, difference sources of information may show different graduation rates, as illustrated on Table 9, which compares THEC’s six-year rate to the IPEDS’ four-year rate for Tennessee community colleges.

**Table 9
Graduation Rates for 2009 Cohort
Tennessee Higher Education Commission Compared to
Integrated Postsecondary Education Data System Calculations**

Community College	Tennessee Higher Education Commission Graduation Rate	Integrated Postsecondary Education Data System Graduation Rate
Chattanooga State	16.20%	8.10%
Cleveland State	24.00%	16.90%
Columbia State	22.30%	13.80%
Dyersburg State	15.40%	8.20%
Jackson State	15.30%	7.30%
Motlow State	24.40%	17.60%
Nashville State	15.20%	9.60%
Northeast State	24.60%	14.90%
Pellissippi State	22.70%	11.30%
Roane State	25.70%	16.50%
Southwest State	8.80%	4.50%
Volunteer State	18.30%	12.30%
Walters State	27.30%	16.70%

Source: Auditor’s analysis of Tennessee Higher Education Commission and U.S. Department of Education data

The Tennessee Promise only provides two years of tuition-free education at a community college or college of applied technology. Therefore, while THEC may have internal uses for a six-year graduation rate calculation, the standard three-year calculation would more effectively align with Tennessee Promise graduation expectations and provide a better benchmark for assessing student completion at these institutions and at a national level of comparison.

INSTITUTE FOR PUBLIC SERVICE

At the request of members of the General Assembly, we included the County Technical Assistance Service (CTAS) and the Municipal Technical Advisory Service (MTAS) within the University of Tennessee Institute for Public Service (IPS) as part of the University of Tennessee Board of Trustees performance audit. We reviewed statutes and documents applicable to IPS, CTAS, and MTAS. We interviewed individuals in the Comptroller of the Treasury's Division of Local Government Audit; staff of IPS, CTAS, and MTAS; and local government employees in selected counties and cities. The objectives of this section were to identify and assess services provided by CTAS and MTAS.

County Technical Assistance Service

CTAS is one of five sections of the University of Tennessee IPS, created by Section 49-9-402, *Tennessee Code Annotated*, in 1973. All CTAS services are offered to counties free of charge and are funded by state appropriations, county taxes, and Tennessee Valley Authority payments in lieu of taxes. CTAS collaborates with several county associations regarding programs and services offered.

CTAS employs 34 individuals assigned to 5 regional field offices in Johnson City, Knoxville, Cookeville, Jackson, and Martin. Field consultants in 3 regions operate out of their homes in Ashland City, Murfreesboro, and Athens. There are 8 general government field consultants; 7 of the field consultants cover 12 to 14 counties, and 1 covers 7 counties. Individuals hired by CTAS must have a minimum of 5 years of local government work experience.

Demand for CTAS services comes from every county; however, rural counties tend to request more services, because employees lack required technical skills to perform certain responsibilities. Counties have the greatest demand for services in the areas of finance, budgeting, and legal services. Other services requested from CTAS include jail management, sheriff management, highway operations, and environmental issues such as solid waste and water treatment. CTAS is also instrumental in providing instruction and training for internal controls and the new open records requirements.

CTAS offers a County Officer Certification Training Program, an intense training course that provides an individual a Certified Public Administration designation.

Table 10
County Technical Assistance Services (CTAS)
Revenues and Expenditures Fiscal Year 2016

	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</u>
CTAS - Revenues			
State Appropriations	\$1,863,251	-	\$1,863,251
Local Appropriations	3,175,887	-	3,175,887
State Grants & Contracts	-	-	-
Local Grants & Contracts	-	-	-
Endowment Income	-	136,058	136,058
Other Sources (training fees)	105,682	-	105,682
Total Revenues	<u>\$5,144,820</u>	<u>\$136,058</u>	<u>\$5,280,878</u>
CTAS - Expenditures			
Payroll & Benefits	\$3,486,637		
Operating	<u>1,227,985</u>		
Total Payroll/Benefits & Operation	<u>\$4,714,622</u>		
Net Income	<u>\$566,256</u>		

Source: University of Tennessee.

Municipal Technical Advisory Service

The Municipal Technical Advisory Service (MTAS) is also one of five IPS units. MTAS was created by Section 49-9-407, *Tennessee Code Annotated*, in 1949 to provide studies and research in municipal government. MTAS furnishes technical, consultative, and field services to the municipalities of the state. Areas addressed include accounting, tax assessment and collection, law enforcement, public works, and other matters relating to municipal government.

MTAS funding is provided by sources including state appropriations, city sales tax, grants, contracts, and gifts. MTAS also charges set fees for classes attended and specialty studies, including comprehensive management reviews.

MTAS has 48 full-time employees, approximately 30 of which are field office consultants who work out of eight locations: Johnson City, Knoxville, Chattanooga, Cookeville, Nashville, Martin, Jackson, and Memphis. These employees are the first contact with representatives of the municipalities, and each employee provides services to an average of 40 to 60 cities. The consultants are required to visit each local government annually, with many municipalities visited at least twice a year. Employees hired by MTAS must have a minimum of six years of prior local government experience.

The Municipal Finance Officer Certification and Education Act of 2007 (Section 6-56-402, *Tennessee Code Annotated*) established the Certified Municipal Finance Officer (CMFO) Program to ensure competence in the handling of municipal funds and the protection of public money. To obtain the CMFO status, participants must complete an 11-course program designed for the

officers to improve knowledge and skills in performing fundamental tasks and to learn more advanced skills to perform their official duties. MTAS developed and provides the training. The certification has 11 sections and takes about a year to complete. As of May 2017, 559 CMFO certificates have been issued, 478 of which are current and active.

An analysis of the CMFO program and municipal audit findings indicated that the program is an effective tool, has helped improve the quality of financial practices in the state, and has helped reduce the number of audit findings. The number of municipal audit findings went from 161 in 2007 to 90 in 2014.

Table 11
Municipal Technical Advisory Services (MTAS)
Revenues and Expenditures Fiscal Year 2016

	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</u>
MTAS – Revenues			
State Appropriations	\$3,039,651	-	\$3,039,651
Local Appropriations	3,039,775	-	3,039,775
State Grants & Contracts	45,752	265,717	311,469
Local Grants & Contracts	-	44,245	44,245
Endowment Income	-	96,580	96,580
Other Sources (training fees)	543,335	-	543,335
Gifts – Restricted	-	<u>115,541</u>	<u>115,541</u>
Total Revenues	<u>\$6,668,513</u>	<u>\$522,083</u>	<u>\$7,190,596</u>
MTAS – Expenditures			
Payroll & Benefits	\$5,222,785		
Operating	<u>1,234,271</u>		
Total Payroll/Benefits & Operation	<u>\$6,457,056</u>		
Net Income	<u>\$733,539</u>		

Source: University of Tennessee.

TENNESSEE STUDENT ASSISTANCE CORPORATION

The Tennessee Student Assistance Corporation (TSAC) is a nonprofit agency that administers financial assistance programs for postsecondary students in Tennessee. The agency is governed by an 18-member board of directors, including the Governor, the State Treasurer, the Comptroller of the Treasury, the commissioner of Finance and Administration, the commissioner of Education, and representatives of higher education serving ex-officio. Other members, each appointed by the Governor, include a representative of a commercial lender, two students enrolled in Tennessee institutions of higher education, and three private citizens. The executive director of the Tennessee Higher Education Commission (THEC) serves as the executive director of TSAC. While TSAC and THEC are technically separate entities, both function cooperatively and interactively and—from a practical standpoint—work together as a coordinated body. The objectives for this section were to evaluate TSAC’s role as administrator for postsecondary

educational loan and grant programs; determine advantages for TSAC as a separate entity; and provide a status update on TSAC's past, current, and future role. Based on discussions with staff, no direct efficiencies would result from merging the two entities.

Currently, TSAC's duties include administering the Academic Scholars program and, for Tennesseans who require financial assistance, the Tennessee Student Assistance Awards program; administering loan and scholarship programs encouraging students to enter the teaching and medical professions; marketing and administering the Tennessee Education Lottery Scholarship program; administering the Tennessee Promise Endowment Scholarship program; and providing statewide financial aid instructional programs for students, parents, and administrators.

TSAC was created by the legislature in 1974 by Section 49-4-201, *Tennessee Code Annotated*, to administer student assistance programs as a public nonprofit corporation. TSAC has expanded considerably since its inception; the agency has gone from \$30 to \$40 million in small scholarship and loan programs to close to \$500 million with the additions of the state lottery, Tennessee Promise, Tennessee Reconnect, and other programs. TSAC administers over 20 different state student financial aid programs, including the HOPE scholarship, Tennessee Promise, Tennessee Reconnect, Tennessee Student Assistance Award, and the Dual Enrollment grant. To increase awareness and participation in the financial aid programs, the agency conducts financial aid outreach and training for students and staff at every high school and postsecondary institution in the state. Staff also consults with postsecondary financial aid offices to improve program effectiveness and efficiencies.

APPENDICES

APPENDIX 1
Tennessee Board of Regents Members
as of November 1, 2017

<u>Board Member</u>	<u>Division/Representation</u>
Bill Haslam, Chair	Governor
Emily J. Reynolds, Vice Chair	5th Congressional District
Candice McQueen	Commissioner of Education
Jai Templeton	Commissioner of Agriculture
Mike Krause	Executive Director, Tennessee Higher Education Commission
Thomas A.H. White	At-Large, East Tennessee
Leigh A. Shockey	At-Large, West Tennessee
Larry Autry	Faculty Regent, Tennessee Colleges of Applied Technology Ripley
Jeremy Mitchell	Student Regent, Tennessee Colleges of Applied Technology Pulaski
J. Parker Smith	1st Congressional District
Danni B. Varlan	2nd Congressional District
Tom Griscom	3rd Congressional District
Fran Marcum	At-Large, Middle Tennessee
Yolanda S. Greene	4th Congressional District
MaryLou Apple	6th Congressional District
Joey Hatch	7th Congressional District
Barbara U. Prescott	8th Congressional District
Greg Duckett	9th Congressional District
William Summons	Faculty Regent, Southwest Community College

Source: Tennessee Board of Regents.

APPENDIX 2
Tennessee Foreign Language Institute Governing Board Members
as of November 1, 2017

<u>Board Member</u>	<u>Division/Representation</u>
Bob Rolfe	Commissioner of Economic and Community Development
Candice McQueen	Commissioner of Education
Kevin Triplett	Commissioner of Tourism Development
Mike Krause	Executive Director, Tennessee Higher Education Commission and Tennessee Student Assistance Corporation
Dr. Flora W. Tydings	Chancellor, Tennessee Board of Regents
Dr. Joe DiPietro	President, University of Tennessee
Francis Canedo	Governor Appointee
Vacant	Governor Appointee
Vacant	Governor Appointee

Source: Tennessee Foreign Language Institute.

APPENDIX 3
University of Tennessee Board of Trustees Members
as of November 1, 2017

<u>Board Member</u>	<u>Division/Representation</u>
Bill Haslam, Chair	Governor
John Tickle	District One
Shannon Pryse	District Two
Vicky Gregg	District Three
Rhedona Rose	District Four
David Shepard	District Five
Tommy Whittaker	District Six
Brad Lampley	District Seven
Julia Wells	District Eight
George Cates	District Nine
Vacant	Non-Tennessee Resident
Charles Anderson	Knox County
Raja Jubran, Vice Chair	Knox County
Shannon Brown	Shelby County
William Evans	Shelby County
Crawford Gallimore	Weakley County
John Foy	Hamilton County
Spruell Driver, Jr.	Davidson County
Charles Wharton	Franklin County
Susan Davidson	Faculty Member
Terrance Cooper	Faculty Member
Rachel Smith	Student Member
Andrew McBride	Student Member
Joseph DiPietro (Ex-Officio)	President, University of Tennessee
Mike Krause (Ex-Officio)	Executive Director, Tennessee Higher Education Commission
Candice McQueen (Ex-Officio)	Commissioner of Education
Jai Templeton (Ex-Officio)	Commissioner of Agriculture

Source: University of Tennessee Board of Trustees.

APPENDIX 4
Tennessee Student Assistance Corporation Board of Directors Members
as of November 1, 2017

<u>Board Member</u>	<u>Representation</u>
Bill Haslam, Chair	Governor
Candice McQueen	Commissioner of Education
Mike Krause, Vice Chair	Executive Director, Tennessee Higher Education Commission
David Lillard	State Treasurer
Justin Wilson	Comptroller of the Treasury
Larry Martin	Commissioner of Finance and Administration
Dr. Gary Adcox	President, Tennessee Proprietary Business School Association
Claude Pressnell, Jr., Secretary	President, Tennessee Independent Colleges and Universities
Joseph DiPietro	President, University of Tennessee
Flora Tydings	Chancellor, Tennessee Board of Regents
Charles Harper	President, Tennessee Association of Financial Aid Officials
Keri McInnis	Commercial Lender Representative
Charles Layne	Student Member
JuliAnna Dykes	Student Member
Tom Hughes	Private Citizen
Sharon Hayes	Private Citizen
Vacant	Private Citizen

Source: Tennessee Higher Education Commission.

APPENDIX 5
Tennessee Higher Education Commission Members
as of November 1, 2017

<u>Commission Member</u>	<u>Division/Representation</u>
Evan Cope, Chair	Middle Tennessee (Murfreesboro)
Dr. Nancy Dishner	East Tennessee (Johnson City)
Pam Koban	Middle Tennessee (Nashville)
Vernon Stafford, Jr.	West Tennessee (Memphis)
Mintha Roach	East Tennessee (Knoxville)
Frank L. Watson, Jr.	West Tennessee (Memphis)
AC Wharton, Jr., Secretary	West Tennessee (Memphis)
Jimmy Johnston	Middle Tennessee (Gallatin)
Dakasha Winton	East Tennessee (Chattanooga)
Tre Hargett (Ex-Officio)	Secretary of State
Justin Wilson (Ex-Officio)	Comptroller of the Treasury
David Lillard (Ex-Officio)	State Treasurer
Dr. Sara Heyburn Morrison (Ex-Officio)	Executive Director, State Board of Education
Jeremy Chisenhall (Ex-Officio)	Student Member

Source: Tennessee Higher Education Commission.

APPENDIX 6
University of Tennessee
Budget Advisory Group Strategic Plan
Fiscal Years 2016 and 2017

Scenario and Boundaries:

External:

- Estimated annual state appropriation increases will be 0%
- Higher education price index (HEPI) will average <3% (current 5-year average is 1.9%)
- State capital outlay and maintenance will continue to be funded at historical averages (FY 2011-12 through FY 2014-2015 yields \$47.8 million for outlay and \$30.3 million for annual maintenance)

Internal:

- Assumption that funds realized from budget actions will be reallocated to higher-priority needs.
- Undergraduate Enrollments
 - In-state enrollment should be greater than 2013-14 levels
 - Out-of-state enrollment may increase but not exceed 25% of total undergraduate enrollment
 - Annual goal setting will be done for growth in enrollment
 - Tuition, increases for undergraduates should be no more than the previous year's HEPI rate change.
 - Graduate and professional tuition increases should be no more than the previous year's HEPI rate changes plus 2-3%.
 - Executive graduate programs may raise tuition based upon demand and the costs of similar programs at peer institutions.
 - Out-of-state tuition may be reduced on a regional basis to be more competitive as justified and with board of trustee action.
 - Tuition and other mandatory fees should be equal to or less than the peer average adjusted for state appropriations per student full time enrollment (FTE).
- Continue College Tennessee Act (CCTA) Performance Funding Model
 - Formula units should rank within the top 5 of the CCTA performance formula funding rankings annually.
- Research
 - UT research and sponsored program expenditures should increase 6% annually, based on a benchmark of the last five-year average.

- Units should review direct and indirect cost sharing on grants and contracts and implement incentives for departments to minimize the level of cost sharing.
- Development
 - Total number of gifts, pledges and bequests should grow > 15% per year based on a benchmark of the last five-year average.

Required Action Plan for All Units:

- Conduct program realignment initiative to assess low performing programs to fund program(s) re-investment.
- Perform a feasibility analysis and develop a plan for program consolidation(s) that will produce cost savings.
- Develop a two-year allocation and reallocation plan based upon 6% of base year's (FY 2014-2015) total unrestricted Education & General (E&G) expenditures to address strategic initiatives, considering the "boundaries" stated earlier, and to address compensation gaps.
- Develop a two-year allocation and reallocation plan to address deferred maintenance needs based upon \$25 million minimum system wide including current efforts. The minimum allocation to the units would be as follows:

UT Knoxville/UT Space Institute	\$15.75 million
UT Chattanooga	\$2.50 million
UT Martin	\$2.00 million
UT Health Science Center	\$3.75 million
UT Institute of Agriculture	\$1.00 million
*maintenance minimums as being proportional to capitalized facilities	

- Using a workforce development program in concert with the above actions, identify amounts that can be redeployed to address strategic initiatives, compensation gaps, and deferred maintenance.
- Conduct a tuition structure review including expanding differential tuition implementation and/or increasing it, development and implementation of an enrollment growth plan for non-resident students, and further implementation of 15/4 tuition plan.
- Non-formula units (Health Science Center, Institute of Agriculture and Institute for Public Service) should review fee structures to ensure activity is capturing actual cost of delivery and should review services being provided for which a fee could be established.
- Undertake a study to identify and address unfunded mandates for tuition waivers/discounts. (This action will be led by the UT system administration)
- Undertake a review of the tenure and post-tenure review process.

Source: University of Tennessee.