

FOLLOW-UP

A Review of the Higher Education Performance Funding Process (June 2001)

FEW CHANGES IN PERFORMANCE FUNDING

The legislative changes recommended in the audit have not yet been implemented. The law still requires funding for higher education to be determined solely on the basis of performance, when in actuality, during the past two years, performance scores have had a negligible effect on funding. The General Assembly has not asked the Commission on Higher Education (CHE) to allocate any funds to eliminate previous disparities based on need. However, appropriations for higher education have decreased and no new funds have been available. The CHE has addressed two of the three recommendations in our audit.

February 2003



AUDIT FINDINGS

This audit focused on the Commission on Higher Education's (CHE's) implementation of Act 359, enacted in 1996, which required the CHE to develop a funding formula based on performance. Although the law required the CHE to allocate *all* funds based on performance beginning in FY 99-00, the amount affected by performance scores was 3% in FY 99-00 and FY 00-01. We recommended that the law be changed. If funding allocations were based solely on performance, extreme fluctuations in funding could result. Also, the current performance measures do not provide a comprehensive assessment of institutional quality. We recommended that funding should be based *in part* on the performance indicators.

When Act 359 mandated that the commission allocate funds based on performance, the institutions did not start on a level playing field. Beginning in FY 91-92, the CHE allocated some institutions a higher percentage of needed funds than others. So that some schools would not receive less funding than they had in the previous year, the CHE shifted a percentage of other institutions' funding to those with dropping enrollment. If the General Assembly intended that institutions have the same starting point for performance-based allocations, it should ensure that funds are allocated to correct previous disparities.

The audit found the CHE complied with the law in developing and implementing performance measures. However, the performance indicators should not be used as the sole determinant of institutional funding.

- The measurement system has had many changes.
- Some of the indicators cannot be easily measured or quantified.
- Some measures have a narrow focus.
- Some indicators are not appropriate for schools with different missions and student populations.

The audit recommended that the commission implement a policy to correct any misallocation of funds that occurred due to data errors and review expenditures and results of its performance improvement grants. The audit also found that performance funding has had little effect on the elimination of waste and duplication in higher education in South Carolina.

CURRENT STATUS

The legislative changes recommended in the audit have not yet been implemented. According to legislators and legislative staff, some factors impeding changes in the law have been the lack of funds for higher education, the opposition of some institutions to changes in parity, and reluctance to consider changes that could open the law to additional changes that could be undesirable.

Current conditions make the need for change more necessary. As shown in the following table, in FY 01-02 and FY 02-03, almost no funds have been affected by performance scores. It is not desirable or feasible to allocate all funds according to performance scores; however, allocating some funds in accordance with the scores can offer a meaningful incentive. One school received a "substantially exceeds" score, the highest possible, in FY 01-02. However, the score had no effect on its appropriation.

METHODOLOGY

We received information from the Commission on Higher Education regarding the implementation of the audit's recommendations. We reviewed this and other information, interviewed officials, and verified evidence supporting the CHE's information as appropriate.

FOR MORE INFORMATION

Our full report, its summary, and this document are published on the Internet at

www.state.sc.us/sclac

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FUNDS AFFECTED BY PERFORMANCE SCORES

FISCAL YEAR	STATE APPROPRIATIONS	AMOUNT AFFECTED BY PERFORMANCE	PERCENTAGE
99-00	\$754,688,747	\$25,794,241	3%
00-01	\$802,499,188	\$27,080,920	3%
01-02	\$749,279,565	\$1,467,397	0%
02-03	\$730,422,216	\$0	0%

The most recent period has not shown a change in the disparity of funding according to need. The Commission on Higher Education determines institutional needs according to a formula, the Mission Resource Requirements (MRR). As shown, the percentage of need funded varies significantly among the institutions.

PERCENTAGE OF NEED FUNDED FY 02-03

The Citadel	69.02%
S.C. State University	68.60%
USC – Columbia	62.54%
Francis Marion University	60.67%
College of Charleston	56.96%
Clemson University	54.66%
Winthrop University	53.95%
Medical University of SC	53.86%
USC Regional Campuses (5)	52.12%
Lander University	52.05%
USC – Aiken	49.20%
Coastal Carolina University	48.02%
Technical Colleges (16)	47.34%
USC –Spartanburg	46.50%

The Commission on Higher Education has implemented some audit recommendations regarding the performance measurement system.

- CHE has taken steps to lessen the administrative burden on the institutions.
- CHE has used data collected for other purposes where possible and required less monitoring for measures that are not being scored.
- CHE has applied some unique measures developed for the mission of MUSC.

The commission has also implemented a policy for reviewing the expenditures and results of its performance improvement grants, although no grants have been awarded in the past two years. However, the CHE has not yet implemented a policy to correct any misallocation of funds that occurred due to data errors discovered in its data verification process. To ensure fairness, any errors should be corrected and funds redistributed.