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An Audit Report Related to  
**The National Research  
University Fund**

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Report No. 12-038

## Overall Conclusion

The State Auditor's Office obtained reasonable assurance that information Texas Tech University and the University of Houston reported to the Higher Education Coordinating Board (Coordinating Board) met the eligibility requirements for receiving funds from the National Research University Fund. Auditors tested both higher education institutions' compliance with the statutory and Coordinating Board requirements as they existed during fiscal years 2010 and 2011 (see Appendix 2 for details on the requirements).

Opportunities exist for the Coordinating Board to clarify its criteria and processes for determining a higher education institution's eligibility for receiving funds from the National Research University Fund. For example, the Coordinating Board should review its criteria for how higher education institutions should account for and report restricted research awards. The Coordinating Board's criteria also do not specify the accounting basis (accrual or cash) and the time frame for reporting endowment balances that higher education institutions should use when reporting restricted research expenditures.

Although both higher education institutions met the eligibility requirements (see Appendix 3 for eligibility determination letters) auditors also identified controls that each higher education institution should improve. Specifically:

- Texas Tech University should develop and implement a documented policy to ensure consistency in its reclassification of contracts, gifts, and grants as restricted research awards.
- The University of Houston should strengthen controls over time and effort reporting for federally funded research.

### Background Information

Texas Education Code, Chapter 62, established the National Research University Fund to provide eligible higher education institutions with funds to support educational and general activities that promote increased research capacity.

The Higher Education Coordinating Board (Coordinating Board) is responsible for establishing criteria for determining whether a higher education institution meets the eligibility requirements. Each fiscal year, the Coordinating Board is required to certify to the Legislature and the Office of the Comptroller of Public Accounts verified information regarding higher education institutions' eligibility to receive funds from the National Research University Fund.

Texas Education Code, Section 62.146(c), specifies that information higher education institutions report to the Coordinating Board and the Coordinating Board's certifications are subject to a mandatory audit by the State Auditor's Office.

## ***Summary of Management's Response***

The Coordinating Board, Texas Tech University, and the University of Houston agreed with the recommendations in this report.

## ***Summary of Information Technology Review***

Auditors performed a limited review of selected general controls and application controls over the accounting systems that the higher education institutions used to manage and report restricted research expenditures. Specifically, auditors reviewed:

- The Banner Enterprise Resource Planning System at Texas Tech University. Auditors reviewed prior audit work, including tests of controls over password security and cash draw information.<sup>1</sup> Auditors also performed tests of controls over user access and change management.
- The PeopleSoft Enterprise Resource Planning System at the University of Houston. Auditors reviewed prior audit work, including tests of controls over user access, password security, change management, and data processing. Auditors also reviewed prior audit work on purchasing, period of availability, and object codes.<sup>2</sup>

The accounting systems reviewed had controls designed to ensure the reliability of the financial data entered and processed.

## ***Summary of Objectives, Scope, and Methodology***

The objectives of the audit were to (1) audit all or a representative sample of restricted research funds awarded to eligible higher education institutions and the higher education institutions' expenditures of those funds and (2) address any other issues considered appropriate.

The scope of the audit covered the time period from September 1, 2009, to August 31, 2011, at the Coordinating Board, Texas Tech University, and the University of Houston.

The audit methodology included reviewing Coordinating Board processes for verifying the information that Texas Tech University and the University of Houston

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<sup>1</sup> See *State of Texas Federal Portion of the Statewide Single Audit Report for the Fiscal Year Ended August 31, 2011* (State Auditor's Office Report No. 12-328, February 2012).

<sup>2</sup> See *State of Texas Federal Portion of the Statewide Single Audit Report for the Fiscal Year Ended August 31, 2010* (State Auditor's Office Report No. 11-318, February 2011) and *State of Texas Federal Portion of the Statewide Single Audit Report for the Fiscal Year Ended August 31, 2011* (State Auditor's Office Report No. 12-328, February 2012).

self-reported. For Texas Tech University and the University of Houston, auditors relied on the results of internal audit work when applicable. Auditors also tested controls related to the higher education institutions' accounting systems and performed tests of restricted research expenditures and compliance with other eligibility criteria. Auditors assessed data reliability using various testing procedures and determined that the information the Coordinating Board, Texas Tech University, and the University of Houston provided was sufficiently reliable for the purposes of this audit.

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# Detailed Results

## Chapter 1

### ***The Coordinating Board Should Clarify Its Criteria and Strengthen Its Processes for Determining a Higher Education Institution's Eligibility to Receive Funds from the National Research University Fund***

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The Higher Education Coordinating Board (Coordinating Board) had processes for collecting information from higher education institutions to determine whether they met the eligibility requirements to receive funds from the National Research University Fund. However, opportunities exist for the Coordinating Board to improve the quality of the information that higher education institutions report. The Coordinating Board should clarify certain requirements in its criteria to ensure that higher education institutions report comparable information. Additionally, the Coordinating Board should strengthen its processes for verifying the accuracy of certain information it uses to determine higher education institutions' eligibility for funds from the National Research University Fund.

#### Chapter 1-A

### **The Coordinating Board Should Clarify Its Criteria for How Higher Education Institutions Should Account for and Report Certain Information**

The Coordinating Board should clarify certain requirements to ensure that the information higher education institutions report is comparable. Specifically, it should clarify:

- The accounting basis (cash or accrual) that higher education institutions should use when reporting restricted research expenditures.
- The types of expenditures that can be reported as restricted research expenditures.
- The time frame for reporting endowment fund balances.

**The Coordinating Board should clarify the accounting basis (cash or accrual) for reporting restricted research expenditures.**

The Coordinating Board's criteria did not specify the accounting basis (cash or accrual) that higher education institutions should use when reporting restricted research expenditures for National Research University Fund eligibility purposes. One higher education institution audited used the cash accounting basis to report its non-payroll expenditures, and the other higher education institution audited used the accrual accounting basis to report its

non-payroll expenditures. Both higher education institutions audited used the accrual accounting basis to report payroll expenditures.

**The Coordinating Board should clarify the types of expenditures that can be reported as restricted research expenditures.**

The Coordinating Board's criteria for reporting restricted research expenditures allowed higher education institutions broad latitude to include expenditures in the restricted research expenditure totals necessary to meet National Research University Fund eligibility requirements. For example, the Coordinating Board criteria state that if the primary purpose of a contract, gift, or grant is research, then all expenditures made as part of that contract, gift, or grant qualify as restricted research expenditures.

**The Coordinating Board should clarify the time frame for reporting endowment fund balances.**

The higher education institutions audited reported endowment fund balances to the Coordinating Board for different time frames. For fiscal years 2010 and 2011, one higher education institution audited reported endowment fund balances as of August 31 for each fiscal year, while the other higher education institution audited reported endowment fund balances as of June 30 for each fiscal year. The Coordinating Board's reporting requirements for endowment fund balances do not specify the time frame for reporting during a fiscal year.

## **Recommendations**

The Coordinating Board should:

- Clarify whether higher education institutions should use the accrual method of accounting or the cash method of accounting when reporting restricted research expenditures to meet National Research University Fund requirements.
- Clarify the types of expenditures that higher education institutions can include within restricted research expenditures that they report to meet National Research University Fund requirements.
- Clarify the time frame for endowment fund balances that higher education institutions report to meet National Research University Fund requirements.

## **Management's Response**

*Recommendation 1: The Coordinating Board should clarify whether higher education institutions should use the accrual method of accounting or the cash method of accounting when reporting restricted research expenditures to meet National Research University Fund requirements.*

*Agency Response: Agency concurs with recommendation. Agency will revise the Standards and Accounting Methods for Reporting Restricted Research Expenditures for the Research Development Fund to specify accounting method.*

*Implementation Date: 12/1/2012*

*Responsible Person: Senior Director, Workforce, Research and Grant Programs*

*Recommendation 2: The Coordinating Board should clarify the types of expenditures that higher education institutions can include within restricted research expenditures that they report to meet National Research University Fund requirements.*

*Agency Response: Agency concurs with recommendation. Agency will revise the Standards and Accounting Methods for Reporting Restricted Research Expenditures for the Research Development Fund to provide further direction on type of expenditures that can be reported for National Research University Fund purposes.*

*Implementation Date: 12/1/2012*

*Responsible Person: Senior Director, Workforce, Research and Grant Programs*

*Recommendation 3: The Coordinating Board should clarify the time frame for endowment fund balances that higher education institutions report to meet National Research University Fund requirements.*

*Agency Response: Agency concurs with recommendation. Agency will survey institutions on the issue and will revise the Accountability System instructions after analyzing survey results.*

*Implementation Date: 11/1/2012*

*Responsible Person: Deputy Assistant Commissioner, Planning and Accountability Division*

## The Coordinating Board Should Strengthen Processes for Verifying Certain Information That Higher Education Institutions Report

The Coordinating Board relied on information that higher education institutions self-reported when determining whether the higher education institutions met eligibility requirements to receive funds from the National Research University Fund. While the Coordinating Board developed processes for determining eligibility, it should strengthen its processes to help ensure the consistency and accuracy of the information that higher education institutions report.

Additionally, the Coordinating Board should consistently document its decisions concerning the information it uses for determining eligibility and communicate those decisions to all higher education institutions.

### The Coordinating Board should strengthen its process for reviewing restricted research awards.

The Coordinating Board had a process for reviewing awards that higher education institutions classified as restricted research for National Research University Fund eligibility purposes (see the text box for additional

information). However, it should strengthen that process to help ensure that awards higher education institutions report are appropriately classified as restricted research. For example:

#### Restricted Research Awards

By June 30 of each year, each higher education institution submits to the Coordinating Board a list of all restricted research awards that have not been previously reviewed. All restricted research awards of \$250,000 or more over the full award term are subject to a review by a panel of representatives from the Coordinating Board and higher education institutions.

Higher education institutions should provide the following information for each restricted research award that is subject to review:

- Name of higher education institution.
- Current fiscal year.
- Principal investigator/recipient.
- Academic discipline.
- Department, center, school, or institute.
- Title of award.
- Total amount of award.
- Name of granting or contracting entity.
- Program title.
- Program/Catalog of Federal Domestic Assistance number.
- Start date and end date of award.

Source: Coordinating Board.

- The Coordinating Board did not require higher education institutions to provide detailed award information to determine whether an award was appropriately classified as restricted research. The Coordinating Board may require higher education institutions to provide additional award information to assess the classification of an award as restricted research during its annual review panel process. However, for awards with multiple purposes, additional detailed information may be necessary to evaluate whether the primary purpose of the award is research. Additional documentation also may be necessary to demonstrate that a gift is restricted for research by the donor and through the higher education institution's budgeting process, as required by Coordinating Board rules.
- The Coordinating Board did not require higher education institutions to report or provide documentation for the restricted research expenditures they made from each award they report. The Coordinating Board required only that higher education institutions report the total value of an award throughout the award's lifetime. Obtaining additional

information on the restricted research expenditures made from awards would provide additional assurances that an award is restricted to research.

**The Coordinating Board should strengthen its processes for verifying the accuracy of information it uses to determine higher education institutions' eligibility to receive funds from the National Research University Fund.**

The Coordinating Board's processes for verifying information it uses to determine the eligibility of higher education institutions rely on (1) higher education institutions certifying the accuracy of self-reported information that they provided for other reporting purposes (such as research development fund and accountability reporting) and (2) for information not obtained for other reporting purposes, reviewing the source documentation that supports information the higher education institutions reported. However, the Coordinating Board did not document the policies and procedures for the processes it used. In addition, the Coordinating Board should develop additional procedures to verify the reasonableness of information it uses to determine higher education institutions' eligibility. For example:

- **Restricted research expenditures.** The Coordinating Board required higher education institutions to report the total amount of restricted research expenditures each fiscal year. The Coordinating Board did not require higher education institutions to provide documentation for the amounts they reported or to provide expenditure detail, such as expenditure totals by award, to support the amounts they reported. Requiring higher education institutions to report their restricted research expenditure totals by award would allow the Coordinating Board to compare the expenditures to its approved list of restricted research awards.
- **Endowment funds.** The Coordinating Board does not require higher education institutions to certify the accuracy of the endowment balances they report, and it does not obtain any additional documentation from higher education institutions to support the endowment balances they report. The Coordinating Board requires higher education institutions only to report their total true and term endowment balance and total quasi endowment balance each fiscal year.

By requiring the higher education institutions to provide additional documentation to support the amounts they report, the Coordinating Board can better assess the reasonableness and accuracy of that information.

**The Coordinating Board should develop objective criteria to evaluate higher education institutions' progress in meeting the criterion regarding freshman class academic achievement.**

The Coordinating Board described its process for determining whether a higher education institution met the criterion regarding freshman class academic achievement (see Appendix 2 for additional information on that criterion). However, the Coordinating Board did not have objective criteria to

evaluate and measure whether higher education institutions met that criterion. As a result, the documentation that the two higher education institutions audited provided to the Coordinating Board related to that criterion varied significantly.

**The Coordinating Board should consistently document its decisions concerning information it uses for eligibility determination and communicate those decisions to higher education institutions.**

The Coordinating Board did not consistently document its decisions regarding how higher education institutions should report information for National Research University Fund eligibility and communicate those decisions to all higher education institutions. For example, the Coordinating Board made additional decisions for the criterion related to high-quality faculty that the two higher education institutions audited considered when reporting information; however, the Coordinating Board did not document or communicate those additional decisions to all the other higher education institutions. By consistently documenting and communicating its decisions to all higher education institutions, the Coordinating Board can help ensure consistency in the guidance it provides to higher education institutions.

## **Recommendations**

The Coordinating Board should:

- Require higher education institutions to provide additional documentation to support the classification of each award as restricted research.
- Document the policies and procedures it uses to verify the information that higher education institutions report for National Research University Fund eligibility.
- Develop and document additional processes to verify the accuracy of information that higher education institutions report for National Research University Fund eligibility, including information they report on restricted research expenditure totals and endowment fund balances.
- Consistently document and communicate all of its decisions for determining eligibility for the National Research University Fund to all higher education institutions.

## **Management's Response**

*Recommendation 4: The Coordinating Board should require higher education institutions to provide additional documentation to support the classification of each award as restricted research.*

*Agency Response: Agency concurs with recommendation. Agency will modify its online portal for institutions to include awards' abstracts and budgets to provide more detail to reviewers. Committee currently may request abstract and budget for awards selected for review. Agency will also document the review process of all awards reviewed by the committee.*

*Implementation Date: 6/1/2013*

*Responsible Person: Senior Director, Workforce, Research and Grant Programs*

*Recommendation 5: The Coordinating Board should document the policies and procedures it uses to verify the information that higher education institutions report for National Research University Fund eligibility.*

*Agency Response: Agency concurs with recommendation. Agency will develop policies and procedures used to verify NRUF information submitted by institutions.*

*Implementation Date: 12/1/2012*

*Responsible Person: Deputy Assistant Commissioner, Workforce, Academic Affairs and Research Division*

*Recommendation 6: The Coordinating Board should develop and document additional processes to verify the accuracy of information that higher education institutions report for National Research University Fund eligibility, including information they report on restricted research expenditure totals and endowment fund balances.*

*Agency Response: Agency concurs with recommendation. Agency will require Emerging Research Universities to submit certifications by the institution Chief Financial Officer and President of endowment balances and expenditures. Additional detail documentation on restricted research expenditures will be required of Emerging Research Universities on track to meet eligibility criteria, as determined by Coordinating Board staff.*

*Implementation Date: 12/1/2012*

*Responsible Person: Deputy Assistant Commissioner, Planning and Accountability Division*

*Recommendation 7: The Coordinating Board should consistently document and communicate all of its decisions for determining eligibility for the National Research University Fund to all higher education institutions.*

*Agency Response: Agency concurs with recommendation. Agency will develop and maintain a FAQ to communicate all decisions for determining eligibility.*

*Implementation Date: 12/1/2012*

*Responsible Person: Deputy Assistant Commissioner, Workforce, Academic  
Affairs and Research Division*

## ***Texas Tech University Should Develop and Implement a Policy to Ensure Consistent Reclassification of Contracts, Gifts, and Grants as Restricted Research Awards***

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Texas Tech University had a documented policy for classifying new contracts, gifts, and grants as restricted research awards. However, it did not have a documented policy to follow when it reclassified existing contracts, gifts, and grants as restricted research awards. As a result, Texas Tech University did not document the basis for its reclassification of contracts, gifts, and grants as restricted research awards in a consistent manner. Auditors performed tests for fiscal years 2010 and 2011 and determined that Texas Tech University appropriately reclassified selected awards tested. However, Texas Tech University should develop and implement a process specifically for reclassification of contracts, gifts, and grants.

The Coordinating Board's standards and accounting methods require higher education institutions to follow certain restricted research award determination criteria, but the Coordinating Board allows higher education institutions to use their own process for classifying awards as long as they:

- Document the process.
- Follow the definition of restricted research in the Coordinating Board's standards and accounting methods.
- Record the person or persons who made the classification and the basis of the classification.
- Maintain documentation justifying their rationale for classifying awards as restricted research awards.

Not consistently documenting the basis for reclassification increases the risk that Texas Tech University may incorrectly reclassify awards.

### **Recommendation**

Texas Tech University should develop and implement a documented policy for its reclassification of contracts, gifts, and grants as restricted research awards.

### **Management's Response**

*During Fiscal Year 2008, Texas Tech University converted to a new enterprise resource planning system, Banner. During that time, existing finds were migrated over to Banner. Our current process dictates that the*

*establishment of all new funds requires a fund establishment or fund organization program (FOP) combination form to be completed. These forms include a section that further details restricted research activities, including definitions and guidance as set forth by the Texas Higher Education Coordinating Board (THECB). Currently, a rigorous review is performed to ensure each research fund meets the THECB criteria of restricted research. We will update our policy to further require any potential reclassifications complete the FOP combination form as well.*

## ***The University of Houston Should Strengthen Controls Over Time and Effort Reporting for Federally Funded Research***

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The University of Houston did not consistently complete time and effort reports for federally funded research in a timely manner. While testing the appropriateness and reasonableness of restricted research expenditures, auditors identified the following:

### **Time and Effort Reporting**

U.S. Office of Management and Budget, Circular A-21, *Cost Principles for Educational Institutions*, Section J.10, requires higher education institutions to prepare time and effort reports each academic term, but not less than every six months. Those reports should:

- Reflect an after-the-fact reporting of the percentage distribution of activity that an employee works on a federally funded project.
- Reasonably reflect the activities for which employees are compensated by a higher education institution.

Source: Office of Management and Budget.

- For fiscal year 2010, the University of Houston did not complete time and effort reports for 10 (37 percent) of 27 federally funded payroll expenditures tested until April 2012.
- For fiscal year 2011, the University of Houston did not complete time and effort reports for 2 (11 percent) of 18 federally funded payroll expenditures tested until April 2012.

The University of Houston did not complete the time and effort reports until after the State Auditor's Office requested those reports. However, it provided additional documentation that supported the appropriateness and reasonableness of the payroll expenditures tested.

The University of Houston's policies and procedures for time and effort reporting did not reflect the requirements with which its Office of Contracts and Grants requires departments to comply. In addition, the University of Houston did not have a centralized monitoring process to verify that departments complied with those requirements. Not completing time and effort reports in a timely manner diminishes the University of Houston's ability to ensure that the payroll expenditures it reports as restricted research expenditures are appropriate and reasonable.

### **Recommendations**

The University of Houston should:

- Update its policies and procedures for time and effort reporting to include the requirements of the Office of Contracts and Grants.
- Develop and implement a monitoring process to verify that its departments comply with its time and effort reporting requirements.

### **Management's Response**

- *We will update our policies and procedures for time and effort reporting to require faculty and staff to complete effort reports in accordance with*

*the requirements of the Office of Contracts and Grants. (Responsible Person: UH Controller; Implementation Date: August 31, 2012)*

- *We will develop and implement a monitoring process to help ensure departments comply with our effort reporting requirements. The Division of Research is currently developing a monitoring and compliance program, including the effort reporting process, with management reports and escalating said reports to university administration. (Responsible Person: Executive Director, Research Services and Finance; Implementation Date: August 31, 2012)*

# Appendices

Appendix 1

## **Objectives, Scope, and Methodology**

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### **Objectives**

The objectives of this audit were to

- Audit all or a representative sample of the restricted research funds awarded to eligible higher education institutions and the higher education institutions' expenditures of those funds.
- Address any other issues considered appropriate.

### **Scope**

The scope of this audit covered the time period from September 1, 2009, to August 31, 2011, at the Higher Education Coordinating Board (Coordinating Board), Texas Tech University, and the University of Houston.

### **Methodology**

The audit methodology included reviewing Coordinating Board processes for verifying the validity, accuracy, and completeness of information that Texas Tech University and the University of Houston self-reported.

Auditors relied on each higher education institution's internal audit work over the classification of awards as restricted research. Auditors reviewed the competence, objectivity, and effectiveness of internal audit work in accordance with audit standards. For the University of Houston, auditors also relied on internal audit work regarding whether the University of Houston met optional eligibility criteria.

Auditors also tested controls over restricted research expenditure processing and reporting. In addition, auditors tested samples of restricted research expenditures for fiscal years 2010 and 2011 to verify (1) the amount of restricted research funds each higher education institution expended, (2) that the higher education institutions accounted for expenditures in the correct time period, (3) that the expenditures represented actual expenditures and were adequately supported, and (4) that the higher education institutions accounted for expenditures in accordance with the Coordinating Board rules.

Auditors assessed the reliability of data by (1) reviewing previous audit work over the data and systems that produced the data, (2) interviewing Coordinating Board and higher education institution management about the

data and (3) performing tests of key data elements. Auditors determined that the data was sufficiently reliable for the purposes of this report.

Information collected and reviewed included the following:

- Coordinating Board, Texas Tech University, and University of Houston policies and procedures related to the National Research University Fund or restricted research expenditures.
- Texas Tech University and University of Houston internal audit documentation.
- Texas Tech University and University of Houston restricted research expenditures for fiscal years 2010 and 2011.
- Texas Tech University and University of Houston documentation to support compliance with certain eligibility criteria.

Procedures and tests conducted included the following:

- Interviewed management and key personnel at the Coordinating Board, Texas Tech University, and the University of Houston.
- Reviewed competence, objectivity, and effectiveness of Texas Tech University and University of Houston internal audit work in accordance with audit standards.
- Reviewed Texas Tech University and University of Houston internal audit documentation and reperformed a portion of internal audit work.
- Evaluated Texas Tech University and University of Houston controls over classifying restricted research expenditures.
- Tested samples of restricted research expenditures at Texas Tech University and the University of Houston for fiscal years 2010 and 2011.
- Reviewed documentation and performed tests over other National Research University Fund eligibility criteria that the Coordinating Board reported Texas Tech University and the University of Houston had met.

Criteria used included the following:

- Texas Education Code, Sections 62.145 through 62.148.
- House Bill 1000 (82nd Legislature, Regular Session) and other legislation as appropriate.
- Title 19, Texas Administrative Code, Chapter 13.
- Title 19, Texas Administrative Code, Chapter 15.

- Coordinating Board Standards and Accounting Methods for Reporting Restricted Research Expenditures for the Research Development Fund.
- Texas Tech University and University of Houston policies and procedures.

### **Project Information**

Audit fieldwork was conducted from April 2012 through May 2012. 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 following members of the State Auditor's staff performed the audit:

- Kristin Alexander, CIA, CFE, MBA (Project Manager)
- Willie J. Hicks, MBA (Assistant Project Manager)
- Pamela A. Bradley, CPA
- Michelle Lea DeFrance, CPA
- Norman G. Holz II
- Kendra Shelton, CPA, MAC
- Lilia Christine Srubar, CPA
- Charles P. Dunlap, Jr., CPA (Quality Control Reviewer)
- Verma L. Elliott, CPA, CIA, CGAP, MBA (Audit Manager)

## ***National Research University Fund Eligibility Criteria***

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In 2009, House Bill 51 (81st Legislature, Regular Session) established the National Research University Fund. The bill also established criteria for higher education institutions to become eligible to receive funds from the National Research University Fund and appointed the Higher Education Coordinating Board (Coordinating Board) to prescribe rules for eligibility, standard methods of accounting, and standard methods of reporting information.

The Texas Education Code requires the Coordinating Board to certify verified information related to criteria to be used in determining the eligibility of higher education institutions to receive funds from the National Research University Fund. In addition, the information that higher education institutions submit to the Coordinating Board to establish eligibility for the National Research University Fund and the Coordinating Board's certification or verification of that information are subject to a mandatory audit by the State Auditor in accordance with Texas Government Code, Chapter 321.

The following excerpts from Title 19, Texas Administrative Code, Section 15.43, outline the eligibility criteria:

(a) The eligibility criteria for a general academic teaching institution to receive distributions from the Fund include: having an entering freshman class of high academic achievement; receiving recognition of research capabilities and scholarly attainment of the institution; having a high-quality faculty; and demonstrating commitment to high-quality graduate education.

(b) A general academic teaching institution is eligible to receive an initial distribution from the Fund appropriated for each state fiscal year if:

(1) the institution is designated as an emerging research university under the coordinating board's accountability system;

(2) in each of the two state fiscal years preceding the state fiscal year for which the appropriation is made, the institution expended at least \$45 million in restricted research funds; and

(3) the institution satisfies at least four of the following six criteria:

(A) the value of the institution's endowment funds is at least \$400 million in each of the two state fiscal years preceding the state fiscal year for which the appropriation is made;

(B) the institution awarded at least 200 doctor of philosophy degrees during each of the two academic years preceding the state fiscal year for which the appropriation is made;

(C) in each of the two academic years preceding the state fiscal year for which the appropriation is made, the entering freshman class of the institution demonstrated high academic achievement as reflected in the following criteria;

(i) At least 50 percent of the first-time entering freshman class students at the institution are in the top 25 percent of their high school class; or

(ii) The average SAT score of first-time entering freshman class students at or above the 75th percentile of SAT scores was equal to or greater than 1210 (consisting of the Critical Reading and Mathematics Sections) or the average ACT score of first-time entering freshman class students at or above the 75th percentile of ACT scores was equal to or greater than 26; and

(iii) The composition of the institution's first-time entering freshman class demonstrates progress toward achieving the goals of the Board's Closing the Gaps report by reflecting the population of the state or the institution's region with respect to underrepresented students and shows a commitment to improving the academic performance of underrepresented students. One way in which this could be accomplished is by active participation in one of the Federal TRIO Programs, such as having one or more McNair Scholars in a particular cohort.

(D) the institution is designated as a member of the Association of Research Libraries, has a Phi Beta Kappa chapter, or is a member of Phi Kappa Phi;

(E) in each of the two academic years preceding the state fiscal year for which the appropriation is made, the faculty of the institution was of high quality as reflected in the following:

(i) The cumulative number of tenured/tenure-track faculty who have achieved national or international distinction through recognition as a member of one of the National Academies (including National Academy of Science, National Academy of Engineering, Academy of Arts and Sciences, and Institute of Medicine) or are Nobel Prize recipients is equal to or greater than 5; or

(ii) The annual number of tenured/tenure-track faculty who have been awarded national or international distinction during a specific state fiscal year in any of the following categories is equal to or greater than 7.

(I) American Academy of Nursing Member

- (II) American Council of Learned Societies (ACLS) Fellows
- (III) American Law Institute
- (IV) Beckman Young Investigators
- (V) Burroughs Wellcome Fund Career Awards
- (VI) Cottrell Scholars
- (VII) Getty Scholars in Residence
- (VIII) Guggenheim Fellows
- (IX) Howard Hughes Medical Institute Investigators
- (X) Lasker Medical Research Awards
- (XI) MacArthur Foundation Fellows
- (XII) Andrew W. Mellon Foundation Distinguished Achievement Awards
- (XIII) National Endowment for the Humanities (NEH) Fellows
- (XIV) National Humanities Center Fellows
- (XV) National Institutes of Health (NIH) MERIT
- (XVI) National Medal of Science and National Medal of Technology winners
- (XVII) NSF CAREER Award winners (excluding those who are also PECASE winners)
- (XVIII) Newberry Library Long-term Fellows
- (XIX) Pew Scholars in Biomedicine
- (XX) Pulitzer Prize Winners
- (XXI) Winners of the Presidential Early Career Awards for Scientists and Engineers (PECASE)
- (XXII) Robert Wood Johnson Policy Fellows

(XXIII) Searle Scholars

(XXIV) Sloan Research Fellows

(XXV) Woodrow Wilson Fellows

(iii) In lieu of meeting either clause (i) or (ii) of this subparagraph, an institution may request that a comprehensive review of the faculty in five of the institution's Doctoral degree programs be conducted by external consultants selected by Coordinating Board staff in consultation with the institution and said review must demonstrate that the faculty are comparable to and competitive with faculty in similar programs at public institutions in the Association of American Universities. Costs for the review shall be borne by the institution. This review is only available if the institution has already met or, as determined by Coordinating Board staff, is on track to meet three of the other eligibility criteria listed in subparagraphs (A) - (D) of this paragraph;

(F) in each of the two academic years preceding the state fiscal year for which the appropriation is made, the institution has demonstrated a commitment to high-quality graduate education as reflected in the following:

(i) The number of Graduate-level programs at the institution is equal to or greater than 50;

(ii) The Master's Graduation Rate at the institution is 56 percent or higher and the Doctoral Graduation Rate is 58 percent or higher; and

(iii) The institution must demonstrate that the overall commitment to five Doctoral degree programs, including the financial support for Doctoral degree students, is competitive with that of comparable high-quality programs at public institutions in the Association of American Universities. The five Doctoral degree programs selected for this review must be those selected in subparagraph (E)(iii) of this paragraph or, if subparagraph (E)(iii) of this paragraph is not chosen by the institution, then any five Doctoral degree programs at the institution. Costs for the review shall be borne by the institution.

Table 1 summarizes Texas Tech University's and the University of Houston's compliance with eligibility criteria for the National Research University Fund.

Table 1

| Summary of Texas Tech University's and the University of Houston's Compliance with Eligibility Criteria For the National Research University Fund   |  |  |  |  |
|---|--|--|--|--|
| Eligibility Criteria  | Texas Tech University  |  | University of Houston  |  |
|   | Fiscal/Academic Year 2010  | Fiscal/Academic Year 2011  | Fiscal/Academic Year 2010  | Fiscal/Academic Year 2011  |
| <b>Mandatory Criteria</b>   |  |  |  |  |
| Designated as an Emerging Research University   | Yes  | Yes  | Yes  | Yes  |
| Expended at Least \$45 Million in Restricted Research Funds   | \$50,071,546 in Expenditures of Restricted Research Funds  | \$50,205,458 in Expenditures of Restricted Research Funds  | \$50,331,913 in Expenditures of Restricted Research Funds  | \$53,100,109 in Expenditures of Restricted Research Funds  |
| <b>Optional Criteria</b>  |  |  |  |  |
| Endowment Funds of at Least \$400 Million   | \$434,150,719 in Endowment Funds   | \$474,854,744 in Endowment Funds   | \$490,953,212 in Endowment Funds   | \$590,528,854 in Endowment Funds   |
| Awarded at Least 200 Doctor of Philosophy Degrees   | 215 Doctor of Philosophy Degrees Awarded   | 232 Doctor of Philosophy Degrees Awarded   | 200 Doctor of Philosophy Degrees Awarded   | 239 Doctor of Philosophy Degrees Awarded   |
| Freshman Class of High Academic Achievement   | 50.55% of Freshman Class Showed High Academic Achievement <sup>a</sup>   | 51.59% of Freshman Class Showed High Academic Achievement <sup>a</sup>   | Not applicable <sup>b</sup>  | Not applicable <sup>b</sup>  |
| Memberships   | <ul style="list-style-type: none"> <li>▪ Association of Research Libraries</li> <li>▪ Phi Kappa Phi</li> <li>▪ Phi Beta Kappa</li> </ul> | <ul style="list-style-type: none"> <li>▪ Association of Research Libraries</li> <li>▪ Phi Kappa Phi</li> <li>▪ Phi Beta Kappa</li> </ul> | <ul style="list-style-type: none"> <li>▪ Association of Research Libraries</li> <li>▪ Phi Kappa Phi</li> </ul> | <ul style="list-style-type: none"> <li>▪ Association of Research Libraries</li> <li>▪ Phi Kappa Phi</li> </ul> |
| High-quality Faculty  | Not Applicable <sup>c</sup>  | Not Applicable <sup>c</sup>  | Six Tenured/ Tenure-track Faculty Met the Recognition Criteria <sup>d</sup>                                    | Seven Tenured/ Tenure-track Faculty Met the Recognition Criteria <sup>d</sup>                                  |
| High-quality Graduate Education   | Not Applicable <sup>e</sup>  | Not Applicable <sup>e</sup>  | Not Applicable <sup>e</sup>  | Not Applicable <sup>e</sup>  |
| <sup>a</sup> Texas Tech University met this criterion based on Title 19, Texas Administrative Code, Section 15.43(b)(3)(C)(i).<br><sup>b</sup> The University of Houston did not meet this criterion; however, it met the requirements for other eligibility criteria.<br><sup>c</sup> Texas Tech University did not meet this criterion; however, it met the requirements for other eligibility criteria.<br><sup>d</sup> The University of Houston met this criterion based on Title 19, Texas Administrative Code, Section 15.43(b)(3)(E)(i).<br><sup>e</sup> Neither Texas Tech University nor the University of Houston requested a comprehensive review of doctoral programs during the reporting period. |  |  |  |  |

## Eligibility Determination Letters



May 24, 2012

Mr. Kent R. Hance, Chancellor  
Texas Tech University System  
15th Street and Akron Avenue, Suite 124  
Lubbock, TX 79409-2013

Dr. Guy Bailey, President  
Texas Tech University  
15th and University  
Room 150, Administration Bldg  
Lubbock, TX 79409-2013

Subject: Texas Tech University's Eligibility for the  
National Research University Fund

Dear Mr. Hance and Dr. Bailey:

The State Auditor's Office has reviewed the report that the Higher Education Coordinating Board (Coordinating Board) submitted in February 2012 indicating that Texas Tech University (University) had met the eligibility requirements for distribution of funds from the National Research University Fund. In accordance with Texas Education Code, Section 62.146(c), the State Auditor's Office conducted the required audit of information that the University submitted to the Coordinating Board for the purposes of establishing eligibility.

The State Auditor's Office obtained reasonable assurance, through sampling, that the University met the criteria established in the Texas Education Code and by the Coordinating Board for expenditures for restricted research, endowment funds, number of doctor of philosophy degrees awarded, high achievement freshman class, and institutional recognition of research capabilities and scholarly attainment. Therefore, the State Auditor's Office concluded that the University is eligible to receive funds from the National Research University Fund. The determination that the University met the eligibility requirements applies to those requirements as they existed during fiscal years 2010 and 2011.

If you have any questions, please contact Verma Elliott, Audit Manager, or me at (512) 936-9500. We appreciate the University's assistance during this audit.

Sincerely,

John Keel, CPA  
State Auditor

Robert E. Johnson Building  
1501 N. Congress Avenue  
Austin, Texas 78701

P.O. Box 12067  
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SAO Report No. 12-335

Mr. Kent R. Hance, Chancellor  
Dr. Guy Bailey, President  
May 24, 2012  
Page 2

cc: The Honorable Judith Zaffirini, Chair, Senate Committee on Higher Education  
The Honorable Dan Branch, Chair, House Committee on Higher Education  
Members of the Texas Tech University System Board of Regents  
Mr. Jerry Turner, Chair  
Mr. Mickey L. Long, Vice Chair  
Mr. Larry Anders  
Mr. L. Frederick Francis  
Ms. Debbie Montford  
Ms. Nancy R. Neal  
Mr. John Field Scovell  
Mr. John D. Steinmetz  
Mr. John B. Walker  
Ms. Jill Fadal, Student Regent  
Members of the Higher Education Coordinating Board  
Mr. Fred W. Heldenfels IV, Chair  
Mr. Harold W. Hahn, Vice Chair  
Dr. Dennis D. Golden, Secretary  
Dr. Durga D. Agrawal  
Mr. Robert W. Jenkins Jr.  
Mr. Munir A. Lalani  
Mr. James H. Lee  
Ms. Janelle Shepard  
Dr. David D. Teuscher  
Mr. Amir Barzin, Student Representative  
Dr. Raymund A. Paredes, Commissioner of Higher Education  
Mr. Martin Hubert, Deputy Comptroller, Office of the Comptroller of Public Accounts



May 24, 2012

Dr. Renu Khator, Chancellor and President  
The University of Houston  
212 Ezekiel Cullen Building  
Houston, TX 77204-2018

Subject: The University of Houston's Eligibility for the  
National Research University Fund

Dear Dr. Khator:

The State Auditor's Office has reviewed the report that the Higher Education Coordinating Board (Coordinating Board) submitted in February 2012 indicating that the University of Houston (University) had met the eligibility requirements for distribution of funds from the National Research University Fund. In accordance with Texas Education Code, Section 62.146(c), the State Auditor's Office conducted the required audit of information that the University submitted to the Coordinating Board for the purposes of establishing eligibility.

The State Auditor's Office obtained reasonable assurance, through sampling, that the University met the criteria established in the Texas Education Code and by the Coordinating Board for expenditures for restricted research, endowment funds, number of doctor of philosophy degrees awarded, institutional recognition of research capabilities and scholarly attainment, and high-quality faculty. Therefore, the State Auditor's Office concluded that the University is eligible to receive funds from the National Research University Fund. The determination that the University met the eligibility requirements applies to those requirements as they existed during fiscal years 2010 and 2011.

If you have any questions, please contact Verma Elliott, Audit Manager, or me at (512) 936-9500. We appreciate the University's assistance during this audit.

Sincerely,

John Keel, CPA  
State Auditor

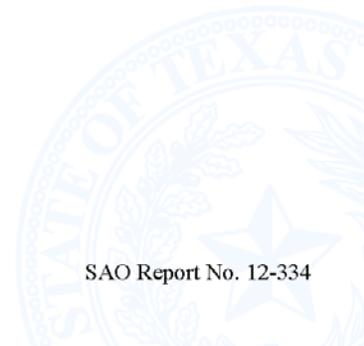
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SAO Report No. 12-334

Dr. Renu Khator, Chancellor and President  
May 24, 2012  
Page 2

cc: The Honorable Judith Zaffirini, Chair, Senate Committee on Higher Education  
The Honorable Dan Branch, Chair, House Committee on Higher Education  
Members of the University of Houston System Board of Regents  
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Mr. James H. Lee  
Ms. Janelle Shepard  
Dr. David D. Teuscher  
Mr. Amir Barzin, Student Representative  
Dr. Raymund A. Paredes, Commissioner of Higher Education  
Mr. Martin Hubert, Deputy Comptroller, Office of the Comptroller of Public Accounts

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The Honorable Harvey Hilderbran, House Ways and Means Committee

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Mr. John D. Steinmetz  
Ms. Suzanne Taylor  
Mr. John Walker  
Mr. Kent Hance, Chancellor, Texas Tech University System  
Dr. Guy Bailey, President

## **University of Houston**

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Mr. Jacob M. Monty

Mr. Gage Raba

Mr. Roger F. Welder

Mr. Welcome W. Wilson, Jr.

Dr. Renu Khator, Chancellor and President



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