ENROLLMENT FRAUD

Nancy Winniford Ashley, College of Business, Washington State University Tri-Cities, 2710 Crimson Dr., Richland, WA 99354, 509-372-7359, nashley@tricity.wsu.edu
John M. Thornton, College of Business, Washington State University Tri-Cities, 2710 Crimson Dr., Richland, WA 99354, 509-372-7246, jthornt@tricity.wsu.edu

ABSTRACT

We use a case study methodology to analyze a state auditor's investigation of a university employee who had inflated enrollment by adding variable credits to undergraduate students' accounts just before the official count was made, then disenrolling them. Another practice reported in the audit but not condemned -- adding variable credit to graduate student records – has a much greater potential to overstate university enrollments than the undergraduate manipulation. This latter practice has serious implications for the fair allocation of state funds between institutions, and opens up several research questions pertaining to ethical financial reporting of state universities.

INTRODUCTION

On a cold gray December morning in 2007, the campus chancellor at the branch campus of a large northwest research university called an emergency meeting of the Campus Council. She announced that an anonymous whistleblower had accused the administration of inflating the full-time equivalent (FTE) student count at the campus and that the state auditor had confirmed the allegations. In response to these findings, the chancellor relieved of their duties four high-ranking, long-term, trusted employees.

The state auditor's investigation found that enrollment had been inflated by adding variable credits to undergraduate students' accounts just before the official count was made, then disenrolling them. No one defended this practice. Another practice was reported in the audit but not condemned -- adding variable credit to graduate student records. The authors ask, "Are the condemned FTE manipulations only the tip of the iceberg? Is the use of variable credit for graduate students indeed acceptable and just?"

We used documents from a public records request of the state auditor's investigation, coupled with testimonies of those close to the matter, to investigate. We used an exploratory case methodology [5] to structure our analysis. We utilize insights from organizational justice literature and the accounting concepts of transparency and disclosure. We decompose the claim, "Everybody is doing it," by addressing the questions "What is it?", "Who is everybody?", "Does everybody know everybody is doing it?", and perhaps most importantly, "Should everybody be doing it?" Our findings have important implications for the accuracy and transparency of financial reporting for universities.

BACKGROUND

Each campus at this university has its own budget, and is funded through tuition dollars and state matching funds based on FTE counts. The campus at the focus of this case had been funded for 715 FTE, but only 690 FTE had been achieved in each of the last three years, 3.5% below target. In previous years, some the state's universities that did not meet enrollment targets had to repay state funds. At

$400 per undergraduate credit and 15 credits undergraduate credits per FTE, this could mean $150,000 to be repaid.

In 2007, the State Auditor's Office received an anonymous whistle-blowing report that the Enrollment Services Coordinator (hereafter "the Subject") under the direction of the Vice Chancellor of Academic Affairs, padded the number of enrolled student credits on the 10th day of the semester by adding variable credits, not associated with any particular class. On the following non-business day (Saturday), the Subject was alleged to remove the extra credits, with neither faculty nor students ever knowing they were enrolled for those extra credits.

The Audit Investigation

The auditor found that the university gets funds from the state per FTE reported on the 10th day. If there is any difference between the 10th day enrollment and the end-of-semester (or 11th day of semester) enrollment, it will go unnoticed by the state, as the differences between the numbers on those dates are not checked.

The legislature proposes target student FTEs per campus, and then funds the university $6,000 per projected FTE. In other words, they estimate what the enrollment will be for the campus for the next several years, and funds the campus according to that estimate. Accordingly, an increase in projected (or estimated) FTEs would increase the funding. If the actual enrolled FTEs indicated a trend of declining enrollments, the funding for previous years might have to be returned. It became clear that increasing actual FTE recorded on the 10th day could eventually result in increased campus funding from the state.

Students would not object to credits being added to their records because once students paid for 10 credits, they were considered to be enrolled full-time and were not charged additional tuition from 10 to 18 credits. Faculty would not object to credits being added to student records, because variable credits are not associated with any particular class or faculty member.

The final report of the state audit investigation found "reasonable cause to believe an improper government action occurred." The report outlined the university's plan of resolution, stating that a policy had been implemented directing no change to course credit hours to a graduate or undergraduate student's schedule will be made by campus staff or faculty without documentation supporting the student's request. The university was left to mete out disciplinary actions.

The Tip of the Iceberg?

Clearly adding credits to undergraduate records one day and dropping them the next day was unacceptable. But also described in the audit was the practice of adding credits to graduate student records, and leaving them in place. Curiously, no one had a problem with this practice. The authors found significant evidence to suggest that graduate variable credit also lent itself to being used to inflate enrollment.

Use of Graduate Variable Credit: the Iceberg Still out of View

Why was variable credit added to graduate student records? During the auditor's interview of the Subject, "she stated this [adding credits to graduate students] is happening on all of the campuses to try

to account for the time spent mentoring the students outside of classes. The Subject gave me a copy of an e-mail from [the Dean of the Graduate School]"[4, p.43] The memo reminded Deans, Associate Deans and Chairs of all the colleges throughout the university to encourage all full-time graduate students to enroll in 700 or 800 credits to reach a ceiling of 18 total credits, and provided directions on how to do it, and a rationalization of why to do it, namely, to reflect the intensive mentoring of graduate students by faculty. However, the auditor found that the process of simply pulling up all grad students with 10 or more credits and adding extra credits does not reflect the expectations or reasons for adjusting the variable.

DISCUSSION

Scope of the Enrollment Fraud

The scope of the improper government action was confined to two issues: 1) overstating student enrollments, and 2) adding/dropping credits on students' behalf without their knowledge. By limiting the scope in this manner, the audit report implicitly validated a potentially fraudulent enrollment practice of much greater magnitude. Specifically, the system continues to count graduate student "variable credits" when computing total FTE enrolled in the university. While a certain minimum number of variable credits are required for most, if not all, graduate degrees, there are several reasons why these credits have a very high inherent risk of being used for fraudulent purposes. First, with the exception of a certain minimum, these credits are not required for the degree. Second, within certain constraints, variable credits do not cost the students any additional money or time. This is specifically true in the present case, where the Dean of Graduate Students' memo referenced only full-time graduate students (designating that group that would not be charged extra), and the Dean of Nursing directed that no additional fees be charged to graduate students enrolled for the extra credits. The university, however, receives about $1,000 in state appropriations for every variable credit in which the graduate student is enrolled – see Table 1.

TABLE 1

State Appropriation per Graduate Credit

10 graduate credits = 1 FTE
State appropriation = $10,000/graduate FTE
State appropriation = $10,000/10 graduate credits
State appropriation = $1,000/graduate credit

"Everybody's doing it"

The whistleblower's allegation of adding credits to students' accounts was met by the defense that everybody was doing it. The argument appears simple, but is complex, with the following embedded questions. What is "it"? Who is "everybody"? Does "everybody" know "everybody" is doing "it"? Should they be doing "it"? We consider each of these questions in turn.

What is "it"? There were several different methods used across the university to achieve graduate students' enrollment in variable credits. At the branch campus, administrators compiled a list of graduate students who were enrolled for at least 10 but less than 18 credits, and students were asked to enroll in variable credits. At the main campus, administrators used varying methods to encourage graduates students to enroll on their own. In a method we found particularly egregious, administrators

in one college told students they would not receive their graduate stipend until they had enrolled for the full 18 credits.

Who is "everybody"? The Dean of Graduate Studies said that he had sent out the same memo about encouraging enrollment in variable credits "just about every year for years," and "it is a national practice" [4, p.97] The Financial Accounting Standards Board [3] indicates that information (about, for instance, the practice of enrolling in extra variable credits) is more useful (i.e. can help determine legitimacy) if there is comparability across institutions and consistency across time. Because the Dean's statements imply that the practice is consistent across time and is comparable across universities, the statements serve to legimate the practice of adding variable credits.

The state auditor did not follow up on the claim that increasing credits was "a national practice," nor check to see if the practice was consistent across the state. This latter question is especially important because universities across the state compete for the same limited pool of dollars. Also, universities within the state with a higher percentage of part-time students would be less able to participate in the credit-increasing manipulation, thus receiving comparatively less funding per credit of actual instruction. The "everybody" that is doing it is less likely to include this latter group of universities.

Does "everybody" know "everybody" is doing "it"? There is no indication that those who could be potentially harmed by the practice of adding credits to students' accounts had any knowledge of the practice. These groups include the public, whose only information to date has been one article in the press, stating that the no monies were connected to the overstated enrollment. In addition, the public's representatives appear to have no knowledge that the university could increase its funding allocations through this practice. We confirmed this through interviews with the director of the Office of Financial Management (OFM), who reports to the state governor. The director did not have knowledge of the ways that variable credit could be added to student records, or the implications for funding. This finding is particularly disconcerting, given that OFM serves as external auditor for the university. The other flagship university in this state is audited by a Big Four accounting firm, but the subject university is not.

Should "everybody" be doing "it"? Is adding variable credit to student records in these ways a thing the university ought to do? A meta-analysis of organizational justice literature [2] stated that "oughtness" is connoted by the term justice. The meta-analysis references the concept of distributional justice, which determines whether the ratio of inputs to outcomes is fair. In this case it appears that the university's outcome (funding from the state) is in a disproportionate and unfair ratio to its inputs to the state (education of students).

If everybody is not doing it, it is because it is fraud

We propose an explanation for the use of graduate variable credit which is different from the administrators' explanations -- namely, to obtain additional funding from the state. The behaviors present in the case appear consistent with fraudulent financial reporting [1].

If gaining increased funding were not the reason, then why were only full-time graduate students encouraged to increase their enrollment through variable credits? Why were graduate students encouraged to enroll for up to, but not more than, 18 credits?

The Dean of Graduate Studies' rationale that "mentoring of graduate students is a significant investment of time and resources on the part of our faculty" is already reflected in the state funding process, which allocates approximately $1,000 per graduate credit compared to approximately $400 per undergraduate credit. It does not appear that the state intended to fund graduate credits above that amount.

The successful "everybody is doing it" defense

Ultimately, the defense, "Everybody is doing it," carried enormous weight in the present case—so much that the auditor's final report focuses only on what was proven to be unique (i.e., adding credits to undergraduate students' accounts without their knowledge and removing those credits after Census Day), even though that practice appears to account for only a very small fraction of the FTE gained by adding variable credits to graduate student accounts. More importantly, the claim "everybody's doing it" appears to have been accepted by the auditor and university internal auditor without verification.

CONCLUSIONS AND FUTURE RESEARCH

Conclusion – the Audit stopped short

The state audit stopped short of condemning the more wide-spread practice of "encouraging" full-time graduate students to enroll in variable credits to reach a ceiling of 18 credits, a practice that allowed the university to gain up to an additional $8,000 per graduate student in state allocations. Moreover, the audit report accepted as a solution to the problem a requirement for students to enroll themselves in those credits, rather than allowing university administrators to do so. In essence, the audit findings focused on form over substance, banning the approach one campus used to manipulate FTEs rather than banning the manipulation itself.

We conclude that there was fundamental misunderstanding of what constituted the accounting fraud, and who was harmed by it. We argue that the substance of the fraud is student enrollment in credits that cost them neither time nor money, and are not even needed to earn their respective degrees (e.g., certain variable credits), which in turn results in inflated FTEs for which the university receives state appropriations. The report missed the point that it was the public (i.e., the state) that appears to have borne the full cost of the manipulation.

Future research

The present case leads to several questions needing further research.

1. Is the practice consistent across the state where the university resides?
2. Are universities in other states using similar practices to inflate enrollments?
3. Are there standards or best practices for universities' use of variable credits in the funding process?
4. Do external auditors examine FTE calculations, and might public audit firms perform higher quality audits?

REFERENCES

[1] American Institute of Certified Public Accountants (AICPA). *Consideration of Fraud in a Financial Statement Audit.* Statement on Auditing Standards No. 99. New York, NY: AICPA, 2002.

[2] Colquitt, J. A., Conlon, D. E., Wesson, M. J., Porter, C. O. L. H. & Ng, K. Y. Justice at the millenium: A meta-analytic review of 25 years of organizational justice research. *Journal of Applied Psychology*, 2001, *86* (3): 425-445.

[3] Financial Accounting Standards Board. *Statement of Financial Accounting Concepts No. 2. Qualitative characteristics of accounting information*. Stamford, Conn: FASB, 1980.

[4] Washington State Office of the Auditor. *Report of Whistleblower Investigation Washington State University NO. 07-052, Dec. 10. Working papers.* Olympia, WA: Office of the Auditor, 2007.

[5] Yin, R. *Case study research: Design and methods, Revised Edition*. Newbury Park, CA: Sage Publications, 1989.