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STATE OF OHIO

OHIO TUITION TRUST AUTHORITY PERFORMANCE AUDIT

SEPTEMBER 26, 2000

EXECUTIVE SUMMARY

Project History

In March of 1999, the Ohio Legislature requested the Auditor of State's Office to conduct a performance audit of the Ohio Tuition Trust Authority (OTTA or Authority). Some members of the Higher Education Subcommittee of Finance were concerned about the rising administrative costs of the Ohio Tuition Trust Authority. Specifically, the subcommittee was seeking an evaluation of the reasonableness of operating costs and the feasibility of outsourcing current OTTA functions. Meetings between the Auditor of State's Office and Authority management were held to discuss the operations of the Authority and the objectives of the performance audit.

As a result of these discussions, it was determined that the performance audit would focus on the following areas of the Administration, Operations and Marketing departments:

- The current staffing levels and mix
- The potential for operational enhancements that may increase efficiency
- The reasonableness of current operating expenditures
- Program benchmarks in efficiency and effectiveness
- The potential for outsourcing services currently performed internally

During the month of February 2000, the Auditor of State's Office performed an initial assessment of each area to be included within the performance audit. This assessment entailed interviewing appropriate managers, determining staffing levels, analyzing certain financial data, collecting peer information and gaining a general understanding of the Authority's operations. Operational areas were defined as Administration which includes information technology, personnel, and finance; Operations which includes customer service and tuition payout; and Marketing. A formal planning document identifying the specific procedures and performance measures to be used in assessing each area was prepared and presented to the Authority. The Authority management was also provided an opportunity to identify any other areas of interest or concern to be examined during the performance audit.

Agency Overview

Created in 1989, the Ohio Tuition Trust Authority is the manager of Ohio's prepaid college tuition program. At the time the audit was conducted, the Authority had more than 74,000 customers and \$425 million in assets. The program currently has approximately 95,000 customers and over \$500 million in assets. Ohio was the third state to offer a prepaid tuition program to residents. Also, Ohio operates the second largest prepaid program in the country and has been a model for many states starting new programs. In 1994, the Ohio Legislature amended the legislation which created the OTTA to include financial backing by the full faith and credit of the state to insure investors against potential loss. The prepaid tuition units purchased through the OTTA program can be used at any public or private university throughout the United States to pay for tuition, fees, room and board, and other qualifying educational expenses. It takes approximately 100 units to buy one year's worth of college tuition at an average priced state university and, during the 1999 enrollment campaign period, one tuition unit cost approximately \$45.

In administering the prepaid tuition program, OTTA performs the customer service, account processing, and marketing functions, as well as other tasks. These functions are all performed in-house. The printing and material development aspects of marketing, investing (PERS) and actuarial valuations are completed by third parties. Total operating costs were \$2.9 million in FY 1998-99. Of the peer agencies, OTTA is the only authority to operate as an independent agency.

Overall Authority administration costs appear to be reasonable when compared to peer expenditures for similar functions. The OTTA Administration Department cost per active client account is the second lowest of the peers. Operations and Marketing department costs are the lowest of the peers as a result of the services provided by the Administration Department, specifically those services associated with technology development and implementation.

Although the OTTA uses studies to gauge client satisfaction and program recognition, the long-term planning and performance measurement functions within the Authority are not well developed. Performance measures are not used to judge the effectiveness of each department or the program as a whole. Although improvements and efficiencies can be identified, the Authority does not widely publish their successes. The Authority publishes an annual report and summary report which is sent to all OTTA clients. Authority growth is publicized through press releases and press events. Although the Authority developed a strategic plan in 1997, the plan did not include linked budgets and revenue projections and has since become outdated.

Since inception, the OTTA's Trust Fund has generated a surplus of approximately 26 percent of future obligations, a very small portion of which is the result of client fees. Although the surplus is a factor used each year in pricing tuition, the Authority does not have a written, formal method to allocate surplus funds or control surplus growth. However, the board meets with its actuary on an annual basis to determine the Trust Fund's valuation soundness. Tuition unit pricing decisions are

based on the Trust Fund's current and projected rates of return. The Reserve Fund, from which operating expenditures are paid, generated approximately 98 percent of operating costs in interest during FY 1998-99.

The Operations Department, which includes customer service, account processing and payouts, is responsible for the internal office operations of records maintenance and the processing of tuition units from clients. During FY 1998-99, the Operations Department had the lowest total operations cost when compared to similar entities. On an individual function basis, the Operations Department costs for customer service and payout functions are high when compared to the peers, but costs for account maintenance are low. Through the efficient use of technology, the Operations Department appears to be highly competitive and cost effective when compared to the peer agencies. The structure of the payout process appears to be the greatest barrier in continued improvement of Operations Department efficiency. The process is complex due to factors both within the Authority's control and outside of its sphere of operations. The payout process requires a sizable time investment by the Department when compared to other functions.

The Marketing Department appears to have developed effective methodologies to market the program through surveys and marketing studies. The OTTA's marketing campaign has been tailored through the use of respondent data to include only the most cost effective methods. In the development of these methods, though, the Marketing Department has not made aggressive efforts to reach lower income groups and encourage their participation in the program. Generally, the prepaid program is considered more appropriate for families with a combined income over \$35,000. The Marketing Department employs public relations and grass roots efforts, conducted through elementary schools, day care centers, employers, churches and other community organizations, to reach Ohio families.

Overall, the OTTA appears to wisely self-fund the state's prepaid tuition program, although strategic planning and budgeting functions require substantially more coordination and development to meet best practice levels. Although the Authority has quarterly performance measurement benchmark reports, the Authority should improve its internal use and public reporting of these results. The lack of regularly documented performance improvements may expose the Authority to criticism over sizable expenditure increases.

Summary Results

The summary results of the performance audit are contained within pages 1-4 through 1-9. The summary result is followed by overall performance audit information, including a definition of performance audits, the objective and methodology of performance audits and peer authority comparisons of key information.

The performance audit addresses three areas of OTTA operations. Major findings, commendations and recommendations are provided for each area. A thorough analysis of each of the three areas, including detailed findings and recommendations, is contained within the corresponding section of the report. All interested parties are encouraged to read the entire report.

The results of this performance audit should not be construed as criticisms of OTTA management. The performance audit should be used as a management tool by the OTTA to improve operations within the agency, as the performance audit provides a series of ideas which the Authority should consider in its decision-making process.

Administration

Findings: OTTA's Administration cost per client account is the second lowest of the peers by approximately \$2.90 to \$7.78 per account. Yet, Ohio ranks as the second highest in total Administration expenditures and the second highest in Administration expenditures as a percentage of total expenditures due to the program's size and the differing methods used by the peer states in accounting for Administration costs. As a result of sustained growth in the client base and total program assets, OTTA's Administration costs have increased during the three year period. Expenditures in salaries, purchased services and information technology have grown at rates above inflation.

The Administration Department is made up of 10 employees and the OTTA employs the greatest number of individuals in the Administration Department when compared to the peer authorities. Factors such as the age of a program or the location of the program within the state government do not appear to affect staffing levels. Although the location of the authority within the state government appears to have an impact on authority full-time equivalent (FTE) levels, interagency services compensate for low FTE levels. In-house versus outsourced or interagency functions appear to also have bearing on administration costs. Outsourced record keeping and customer service functions, as well as marketing tasks, are considerably more expensive for the peer authorities when compared to the cost of personnel performing similar functions in the OTTA. Although information technology (IT) costs encompass a large portion of OTTA's Administration Department expenditures, OTTA's FY 1998-99 IT costs were approximately \$38,960 less than Michigan's and \$1,053,888 less than Texas'.

The Board and executive director have not dedicated sufficient time for long range planning. A recently developed strategic vision lacks essential planning information, such as actions, deadlines and associated resource needs. Also, the Authority does not use a formal internal reporting package to benchmark performance to determine how effective the OTTA is in administering the prepaid program. Individual performance measures are tracked on a department by department basis.

The Office of Budget and Management (OBM) prepares guidelines for the OTTA's biennial budget request which specify the Authority's authorized biennium Core Budget Levels (CBL). The Authority has used the maximum cap for its budget request in biennium budget years 1997-1999 and 1999-2000 and made supplemental requests above the CBL for each year in the past two biennium budget periods. Requested amounts, which include supplementals, exceeded the core budget levels by 4 to 22 percent. Although the OTTA participates in the state appropriation process, the program is entirely self-funded and receives no state appropriations.

The OTTA collects an enrollment fee (\$10 to \$50) and approximately \$5 on every tuition unit (unit fee) to defray the administrative costs of the program. According to OTTA management, the unit fee and enrollment fee were set by the Board in 1995 and have not been changed since that time. In addition, the Reserve Fund has the ability to generate interest revenue amounting to approximately 98 percent of current operating costs. Based on current costs, the OTTA may have the potential to reduce fees through the use of interest earned on past fees residing in the Reserve Fund. The Authority has indicated that the board approved an elimination of enrollment fees and most administrative fees beginning on October 1, 2000. The Reserve Fund earned a total of \$9.2 million during FY 1998-99. Also, as of June 30, 1999, the OTTA Trust had a surplus of \$82.2 million or 26 percent of obligations. Actuarial findings suggest that the OTTA should develop a written policy to establish what constitutes an adequate reserve cushion for future Trust Fund payments and how funds in excess of this amount will be addressed.

Commendations: The OTTA Administration Department provides a high level of services to the Authority and creates cost savings in other operational areas primarily through technology. In comparison to the peer agencies, the OTTA's IT function is less expensive and appears to provide the Authority with cutting edge technology for customer service and record keeping applications. The Authority's comprehensive investment policy and accompanying goals and performance benchmarks ensure that the Trust Fund is continually monitored and regularly evaluated. Performance benchmarks help the OTTA's Board appraise the performance of the fund in relation to the overall market and gauge the adequacy of tuition unit pricing in relation to university tuition inflation.

Recommendations: The Authority should develop an agency wide, written strategic plan for the prepaid tuition program that includes objectives, definitions of desired outcomes, and realistic time lines for implementation. The OTTA Board and executive director, with the assistance of key departmental personnel, should also develop a methodology to obtain and analyze the results of internal and external performance through outcome based performance measures. The executive director and deputy director of finance should ensure that the departmental budgets reflect the action plans identified in the Authority's strategic plan. Also, to ensure the most efficient operation of the Authority, OTTA should more strongly link its anticipated operational receipts (enrollment and unit fees) to operational expenditures.

Other significant recommendations include:

- The Board should consider developing and adopting a formal policy to address the definition of an appropriate surplus amount in the Trust Fund in relation to future obligations. The Authority should also consider reducing fees.
- The Authority should update its technology plan on an annual basis and publicize completion of large technology projects through budget documents and technology plan updates.
- The OTTA IT department should consider including upcoming challenges, such as the potential implementation of Affinity and debit cards in all technology planning documents.

Operations

Findings: During FY 1998-99, Operations Department costs increased 9.69 percent from the prior year. During the two year span from FY 1996-97 to FY 1997-98, OTTA Operations Department costs increased by 115.22 percent as a result of several technology additions implemented to meet the needs of a significantly larger client base. The OTTA Operations Department's cost per active client account is the second lowest of the peers and approximately one third the cost of the peer average. OTTA total Operations costs are also the second lowest of the peers and substantially lower than Pennsylvania and Texas. On a functional basis, Ohio's total customer service costs are the second highest of the peers, as are total payout costs. OTTA total account maintenance costs are the second lowest of the peers and approximately one sixth the peer average.

The Operations Department staff consists of 14 employees who are responsible for customer service functions such as addressing program participant inquiries, resolving customer service problems, entering account data and processing payment of tuition units. OTTA has the second lowest number of total Operations FTEs, including outsourced positions, when compared to the peers. The OTTA also employs slightly above the peer average total number of customer service and account maintenance FTEs, and maintains a higher number of active client accounts per FTE when compared to the peer average. The Authority also maintains the second highest number of customer service FTEs and answers the second highest number of calls. In the area of account maintenance, the OTTA appears to maintain the second lowest number of accounts per FTE.

In order to process payments from client accounts, the Operations Department must know both the universities' charges for tuition, fees, room and board, and the current value of units within each client account. The value in units of any particular account is determined in part by the weighted average tuition (WAT) inflationary factor which is calculated by the OTTA through an annual study of all Ohio state universities. Although tuition information is not made available to OTTA until late July or August each year, a survey of all thirteen state universities found that the university boards

set tuition and fee rates between April and June of 2000. The university bursars office may not receive tuition and fee rate information from the university board for several days to several weeks after the decision is made. As the OTTA communicates almost exclusively with the bursars offices, the Authority must estimate the WAT to meet payment deadline dates for several schools.

Commendations: The OTTA Operations Department appears to provide comparable services at a relatively lower cost when compared to comparable programs. The Authority has the second lowest Operations Department cost per client and, on a total cost basis, the OTTA has the second lowest expenditures of the peers and ranks well below the peer average. Also, the Operations Department, when compared to the peers, appears to be effectively staffed based on current duties. Through retaining operations functions in-house, the OTTA has maintained a lower cost and FTE level than the peer average. The Authority's development of specific applications to streamline the operations function has been highly successful. Each year, as indicated in the Authority's technology plan, additions are planned for operations technology, including updates to the hardware and software used by the department.

Recommendations: The Operations Department should make clarification and simplification of payment processes between the universities and the OTTA a top priority. Also, the director of operations and the executive director of OTTA should approach the state universities within Ohio regarding the timing of fee and tuition rate availability. The OTTA should endeavor to establish communications through the universities' budget departments in order to receive tuition and fee rate information in a more timely manner.

Other recommendations include:

- The OTTA should develop a formal cross-training plan and schedule to reflect the cross-training goals of the agency.
- The OTTA should consider expanding the payout brochure to indicate allowable expenditures in a more easily read and understood fashion. In addition, the Authority should consider modifying the IVR system to allow a caller to revert to the main menu after proceeding through one of the primary selections. Additions such as secure client access to account information, governing legislation, expanded explanations of benefits and payout processes, as well as prepaid tuition forms, should be considered in future Web site expansions.
- In developing the RFP for the new college savings plan, the OTTA should evaluate the impact of potential changes to the Authority caused by the addition of the college savings plan. The Authority should carefully examine the potential impact of the new program on current operations; management should proactively examine the impact of the program on staffing and structure.

Marketing

Findings: OTTA Marketing Department expenses encompass advertising, direct mail, special promotions and events, circulation materials, public relations, special marketing campaigns and market research costs. The Department's costs have decreased slightly during the three year period as a result of a major shift in resources from FY 1997-98 to FY 1998-99 from television and radio to direct mail. Ohio spends the second lowest amount on marketing but generated the greatest number of new customers in FY 1998-99. Ohio not only had the highest number of new clients in FY 1998-99, but also generated the second highest amount in new sales revenue. More importantly, OTTA's marketing cost per new client was the lowest among the comparison group and approximately 53.6 percent less than the peer average. The Authority also had the second highest dollars generated per marketing dollar spent.

The results of marketing efforts can be assessed through the characteristics of those who choose to join the program. Prepaid tuition programs are generally considered more appropriate for households with an annual income above \$35,000. The majority of Ohio clients are drawn from the \$50,000 to \$100,000 income range. Although the Authority is charged with making saving for college more affordable, the reported income of clients shows a clientele base with above average income levels.

The marketing staff of the OTTA consists of six employees who are responsible for adding and retaining clients. Although OTTA carries a slightly higher number of FTEs than the peer average, the number of FTEs is comparable to those employed by Pennsylvania's program. Employee productivity for regional marketing representatives is primarily assessed through establishing goals for sales calls on a monthly basis. Each regional representative must call 100 companies each month to sell the payroll deduction method of purchasing prepaid tuition units. Interviews with marketing personnel indicated that these sales tracking efforts were relatively new.

An enrollment campaign is conducted during a specific time of the year to promote an increase in memberships. Rather than rely on television or radio, the OTTA's marketing efforts have a strong emphasis on direct mail to publicize the enrollment campaign and the program in general. The Authority's Web site is also considered a marketing tool and several features of the site are specifically geared toward marketing the program to new clients. In the fall of 1999, potential clients were able to enroll on-line for the first time. From October 1, 1999 to May 2, 2000, the Web site processed 1,131 enrollments worth approximately \$550,000 in revenue. During this same time period, 5,881 requests for enrollment kits were made via the Web site.

Commendations: The OTTA Marketing Department has the lowest marketing cost per new client when compared to the peers. By tailoring the OTTA's marketing campaigns to reach proven client groups, the OTTA appears to efficiently use marketing expenditures and achieves a high rate of return for each marketing dollar spent. The OTTA Marketing Department bases marketing decisions on

research data and experience gained through surveys of new customers, as well as test marketing strategies. The Marketing Department has shown a commitment to the strategic plan developed in 1996 and has worked toward several of the goals.

Recommendations: The OTTA should consider reexamining the marketing strategies used to recruit clients in lower income brackets. Although the OTTA does not exclude families with household incomes below \$35,000 from the direct mail marketing campaign, the direct mail campaign is targeted toward households with income levels above \$35,000. Authority marketing data suggests that lower income families may not join the program but continued and more aggressive marketing efforts targeting lower income groups should be performed. The Authority does promote low minimum contributions of \$15 in all marketing materials.

OTTA should formally track sales productivity of regional marketing representatives by establishing a process by which actual sales in a monthly period are compared to established sales goals. This could provide management with a better indication of which sales representatives are most efficiently meeting or exceeding sales goals. The Marketing Department should work closely with the IT Department to develop and track sales data for the prepaid program through current database technology capabilities.

Other recommendations include:

- The OTTA should assess all compensation packages related to sales and performance.
- The Marketing Department should intensify efforts to educate clients and potential clients about the tax benefits of the program.

Objectives and Scope

A performance audit is defined as a systematic and objective assessment of the performance of an organization, program, function or activity to develop findings, conclusions and recommendations. Performance audits are usually classified as either economy and efficiency audits or program audits.

Economy and efficiency audits consider whether an entity is using its resources efficiently and effectively. They attempt to determine if management is maximizing output for a given amount of input. If the entity is efficient, it is assumed that it will accomplish its goals with a minimum of resources and with the fewest negative consequences.

Program audits normally are designed to determine if the entity's activities or programs are effective, if they are reaching their goals and if the goals are proper, suitable or relevant. Program audits often

focus on the relationship of the program goals with the actual program outputs or outcomes. Program audits attempt to determine if the actual outputs match, exceed or fall short of the intended outputs. The performance audit conducted on OTTA contains elements of both an economy and efficiency audit and program performance audit.

The objectives of performance audits may vary. The Auditor of State's Office has designed this performance audit with the objective of reviewing systems, organizational structures, finances and operating procedures to assess the reasonableness of current operating costs and the potential for outsourcing. Specific objectives of this performance audit include the following:

- Analyze Authority administration expenses, including operations and marketing costs
- Determine if overall administrative costs to operate the Authority appear reasonable
- Determine if competitive contracting is feasible in certain areas

The performance audit of the Authority covers the following areas of operations:

- Administration
- Operations
- Marketing

Planning for the performance audit began in October 1999. The actual performance audit was conducted primarily during the months of March 2000 through mid-May 2000. Regular progress meetings were conducted throughout the entire period. Draft reports were discussed with the staff and management of the OTTA.

Methodology

To complete the performance audit, the auditors gathered and assessed a significant amount of data pertaining to the OTTA, conducted interviews with various individuals associated with the Authority and assessed information from the peer agencies. The methodology is further explained below.

Use of previous studies, reports and other data sources

In evaluating the various performance audit areas, OTTA was asked to provide any previous studies or analyses already prepared on the subject areas. In addition to reviewing this information, the auditors spent a significant amount of time gathering and reviewing other pertinent documents or information. Examples of the studies, reports and other data sources which were reviewed include the following:

- Authority financial statements and annual reports
- Agency manuals, procedural policies, forms and brochures
- Organization chart and position descriptions
- Planning documents, including departmental plans
- Marketing and client research reports
- Actuarial evaluations

Interviews and Discussions

Numerous interviews and discussions were held at many levels and with groups of individuals involved internally with the Authority. These interviews were invaluable in developing the overall understanding of Authority operations and in some cases, were useful sources in identifying concerns with OTTA's operations and in providing recommendations to address these concerns. Examples of the organizations and individuals which were interviewed and surveyed include the following:

- OTTA deputy directors and administrative staff
- OTTA Operations and Marketing personnel
- OTTA Board members
- Authority personnel at the Michigan Educational Trust (MET), the Pennsylvania Tuition Account Program (TAP), and the Texas Tomorrow Fund (TTF)

Benchmark Comparisons with Other Agencies

Three peer authorities, Michigan, Pennsylvania and Texas, were selected to provide benchmark comparisons with the OTTA. Performance indicators were established for the various performance audit areas to develop a mechanism to compare how effectively and efficiently the OTTA is providing necessary functions. The information was gathered primarily through interviews with peer agency personnel and analyses of authority information provided by the peers.

Comparative Authorities

Comparative statistics and information regarding program dynamics, are presented in **Tables 1-1 (A)** through **1-1 (C)**. **Table 1-1 (A)** shows comparative program organization information for Ohio and the peer authorities. The Ohio and Michigan programs are the oldest included in the study. Ohio's program is the only program not associated with a parent agency or department and, as a result, enjoys greater decision making freedom. While Michigan and Pennsylvania's programs only cover tuition costs, Ohio's program covers a much broader range of university expenses, as allowed by federal regulations. Ohio is also the only state program to perform all functions in-house which may contribute to higher staffing levels but also appears to create operational efficiencies and cost savings.

The OTTA is compared throughout this report to peer authorities in Michigan, Pennsylvania and Texas. The Michigan Educational Trust (MET) is operated within the Michigan Department of the Treasury. Low-cost tuition contracts offered by MET during the initial years of program operations generated a large Trust Fund. Recent client growth, though, has been slow and the program is primarily dedicated to the payout of mature accounts. The Pennsylvania Tuition Account Program (TAP), in contrast, has been in operation for only four years and dedicated most of its resources to attracting new clients. TAP is housed within the Pennsylvania Treasury Department. Only a handful of accounts are currently in the payout process. The TAP program is unique in program funding; the program does not charge client fees to fund operations but uses appropriations and interested generated by past fees to maintain operations. In 1998, the TAP program refunded fees to all account holders. The Texas Program, Texas Tomorrow Fund (TTF), is also relatively new but has experienced aggressive growth in the first few years of program operations. Of the peers, TTF has the highest operating costs which are paid entirely through client fees. TTF is housed within the Texas Comptroller's Office.

The OTTA program offers individual tuition units for sale and 400 units equals a four-year education at an average priced Ohio public university; a maximum of 2,000 units may be purchased to pay for out-of-state colleges. MET, TAP, and TTF, on the other hand, require clients to purchase a contract which will cover two or four years of higher education at a state college or university. During the early years of operation, the OTTA's unit method of purchase created higher costs for the Authority but provided clients with a lower cost purchasing option. Most prepaid programs now permit clients to purchase contracts on an extended basis through monthly payments. This methodology has equalized operating costs between Ohio and the peers but has also made competing contract programs appear comparable in purchasing flexibility when compared to Ohio's program.

College tuition savings and prepaid programs frequently communicate between themselves and provide technical support for each other. The OTTA is a member of the College Savings Plan Network, a consortium of college tuition programs. The Authority's long operational history and successful program track record have made the program a model for States entering the field of

prepaid tuition programs. While peer programs compare information on a variety of levels, the comparisons used in the performance audit are not typically a focus of program comparisons. The high degree of support and communication between programs, though, is exceptional considering the increasing competition between programs for new clients.

Table 1-1 (A): Authority Profiles

	Ohio	Michigan	Pennsylvania	Texas
Operational Year	1989	1989	1992	1996
Responsible Organization	OTTA	Department of Treasury	Department of Treasury	Comptroller
Types of Expenses Covered	Tuition, Room, Board, Fees	Tuition	Tuition	Tuition, Fees
FY 1998-99 Total Authority Assets	\$427,701,117	\$809,100,000	\$154,161,010	\$780,177,671
Location of Critical Functions				
Phone Center	In-house	In-house	In-house	Private Contractor
Record Keeping	In-house	Department of Treasury	Department of Treasury	Private Contractor
Marketing	In-house	In-house	In-house/ Private Contractor	Private Contractor
Investment Management	Public Employees Retirement of Ohio	Department of Treasury	Department of Treasury	Comptroller
Purchase Methodology				
Unit versus Contract	Unit	Contract	Unit	Contract
Monthly Payment Option	Yes	Yes	Yes	Yes
Payroll Deduction Option	Yes	Yes	Yes	Yes

Source: OTTA and peer authorities

Table 1-1 (B) illustrates authority expenditure profiles. The OTTA has the second lowest total operating expenditures but the second highest administration expenditures. The peer authorities have a greater proportion of expenditures dedicated to operations and marketing. On a cost per client basis, the OTTA has the second lowest overall expenditures, and the lowest expenditures for Operations and Marketing. The Authority also had the second highest weighted return on investments for FY 1998-99.

Table 1-1 (B): Authority Expenditure Profiles (FY 1998-99)

	Ohio	%	Michigan	%	Pennsylvania	%	Texas	%
Administration	\$1,376,353	46.5%	\$1,262,425	71.6%	\$85,534	2.5%	\$1,999,318	41.7%
Operations	\$561,287	19.0%	\$248,100	14.0%	\$1,119,184	32.3%	\$1,364,928	28.4%
Marketing	\$1,022,061	34.5%	\$253,675	14.4%	\$2,262,800	65.2%	\$1,435,688	29.9%
Total Expenditures	\$2,959,701	100.0%	\$1,764,200	99.9%	\$3,467,518	100.0%	\$4,799,934	100.0%
1999 Cost Per New Client		\$234.99		\$235.23		\$2,291.82		\$496.07
1999 Cost per Client (All)		\$39.98		\$30.03		\$120.00		\$63.32
Administration Cost per Client Account		\$18.59		\$21.49		\$2.96		\$26.37
Operations Cost Per Client Account		\$7.58		\$4.22		\$38.73		\$18.01
Marketing Cost Per New Client Account		\$81.15		\$167.66		\$301.71		\$148.38
Weighted Return on Investment		11.4%		Not calculated ¹		11.7%		6.0%

Source: 1999 OTTA and peer authority financial statements

¹ The MET fund is one of a number of small investment programs managed by the Bureau of Investments in the Department of the Treasury. The return on investment is not tracked because of the small size of the fund.

As illustrated in **Table 1-1 (C)**, Ohio has the second lowest population of the peers, but the second largest number of clients and second largest target percentage served. Ohio also had the highest number of new clients in FY 1998-99 and the second highest sales revenue. The authority employed the highest overall number of FTEs when compared with peers. The level of staffing at the Authority in 1999, when compared with its higher numbers of new and existing clients, did not generate higher per client costs.

Table 1-1 (C): 1999 Peer Authorities Comparisons

	Ohio	Michigan	Pennsylvania	Texas
Total State Population ¹	11,021,419	9,443,665	11,995,405	17,682,538
Total Active Clients as of June 30, 1999	74,024	58,749	34,420	75,804
Total Clients Since Inception	81,809	75,236	30,301	86,000 ²
Target Percent Served	8.17%	9.49%	3.09%	4.93%
Authority FTEs	28.75	15.00	19.00	14.50
Outsourced FTEs	0.00	5.00	6.00	13.00
Number of New Clients, 1999	12,595	1,513	7,500	9,676
Total Sales Revenue	\$55,773,119	\$12,835,268	\$21,000,609	\$105,537,320

Source: OTTA and peer authorities

¹ 1990 U.S. Census data

² Texas was unable to provide a total client count as of June 30, 1999. The 86,000 figure provided was estimated by the director of the program

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Background

Introduction

The State Auditor's Office has undertaken a performance audit of the Ohio Tuition Trust Authority (OTTA or Authority) at the request of the state Legislature. Concerns over increasing administrative costs prompted the request for this performance audit. The objective of this performance audit is to analyze Authority administration expenses, including operations and marketing costs, to determine if the overall administrative cost to operate the Authority appears reasonable, and to ascertain if competitive contracting is feasible in certain areas.

Organization Function

The Ohio Tuition Trust Authority is a public agency created in 1989 under the Ohio Revised Code (ORC) Section 3334. The Authority's operations are subject to various rules, procedures, and guidelines mandated by the ORC and the Ohio Administrative Code (OAC). Federal tax regulations govern disbursement of tuition units. The following list describes the Authority's primary responsibilities:

- Provide affordable higher education funding opportunities to Ohio families
- Maintain state institutions of higher learning by providing a stable financial base to the institutions
- Provide protection against the rising costs of higher education
- Encourage savings
- Promote a well-educated and financially secure population

The program offered by the OTTA consists of prepaid tuition units. In October 2000, the Authority plans to add a college savings program.

Authority Governance

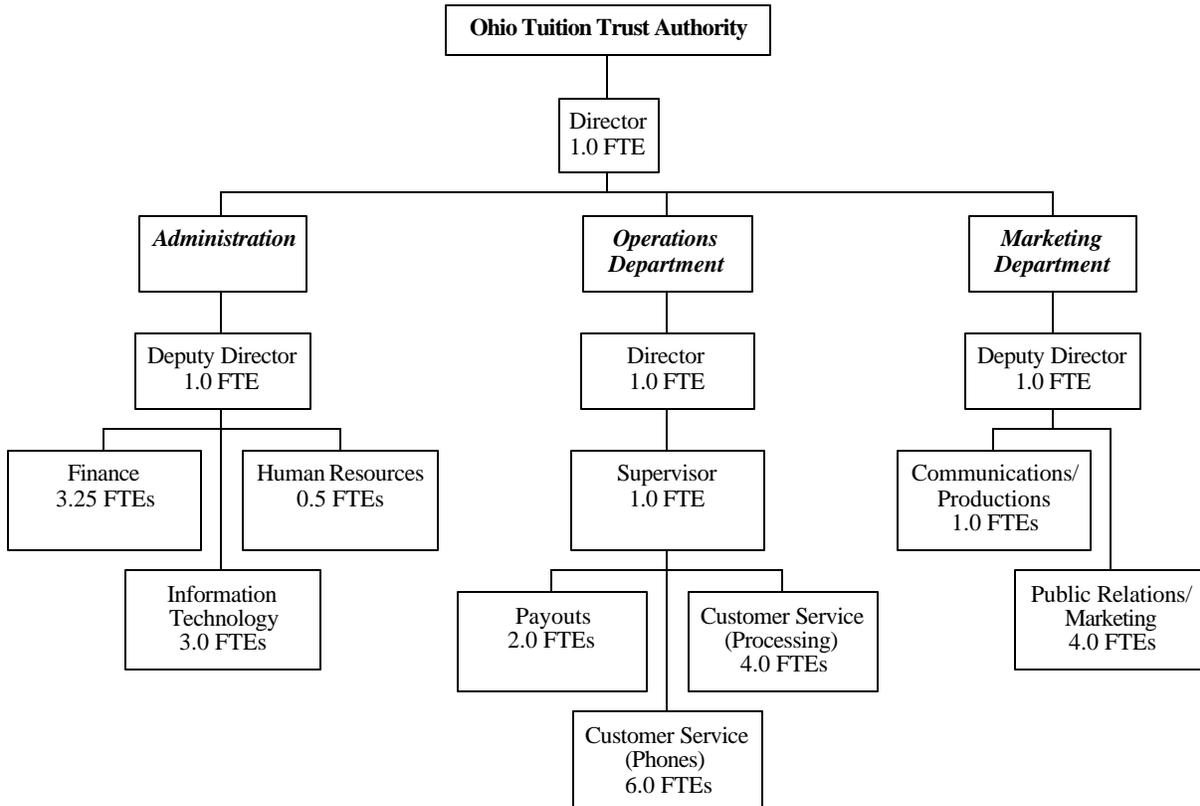
The OTTA is governed by an 11-member, non-paid Authority Board (Board). The Board consists of six members appointed by the governor as follows: one member who represents state institutions of higher education; one member who represents private, nonprofit colleges and universities in Ohio; one each who has expertise in marketing and information systems; and two who have experience in

banking, finance, or law. In addition, four members are appointed by the House of Representatives and the Senate: two are appointed from each body and must each be of a different political party. The chancellor of the Board of Regents or his designee serves as an ex-officio member. Gubernatorial appointees serve four year terms while legislative members serve two year terms. The Board meets in public session at least annually to decide the major issues facing the Authority. The current Board meets more frequently, approximately once every two months. The Board's role in governing the Authority is fourfold: 1) select and oversee the actions of the director, 2) review and establish Authority policies, 3) oversee the finances of the Authority, and 4) determine the annual tuition unit price. The Board is also required to approve the Authority's marketing plan. The day-to-day operations of the OTTA are delegated by the Board to the executive director of the Authority.

Organization Chart

The functions of the OTTA are carried out in three departments. A total of 30 individuals (28.75 full-time equivalents) are employed within the Authority. The following chart illustrates the organizational structure and various functions of each of the Authority's departments.

**Chart 2-1
Authority Departmental Structure**



Staffing

The following table presents staffing level information by functional classification for OTTA personnel during FYs 1994-95, 1996-97 and 1998-99. The number of staff was calculated using full-time equivalents (FTEs) as applied to the individual's responsibilities.

Table 2-1: Staffing Levels by Classification

Area/Classification	FY 1994-95	FY 1996-97	FY 1998-99	Net Change 1995-1999
Executive Director	1.00	1.00	1.00	0.00
Administration	6.50	6.75	7.75	1.25
<i>Finance</i>	<i>3.00</i>	<i>3.25</i>	<i>4.25</i>	<i>1.25</i>
Deputy Director	1.00	1.00	1.00	0.00
Comptroller	1.00	1.00	1.00	0.00
Fiscal Coordinator	1.00	1.00	1.00	0.00
Financial Analyst	-	-	1.00	1.00
Intern	-	0.25	0.25	0.25
<i>Human Resources</i>	<i>0.50</i>	<i>0.50</i>	<i>0.50</i>	<i>0.00</i>
Human Resources Coordinator	0.50	0.50	0.50	0.00
<i>Information Technology</i>	<i>3.00</i>	<i>3.00</i>	<i>3.00</i>	<i>0.00</i>
Information Systems Manager/ Application Developer	1.00	1.00	1.00	0.00
Application Development/ Programmer	1.00	1.00	1.00	0.00
Information Technologist/ Database Manager	1.00	1.00	1.00	0.00
Operations Department	5.00	11.00	14.00	9.00
Manager/Director of Operations	1.00	1.00	1.00	0.00
Customer Service Supervisor	-	1.00	1.00	1.00
<i>Customer Service (Phones)</i>	<i>3.00</i>	<i>6.00</i>	<i>6.00</i>	<i>3.00</i>
Customer Service Team Leader	-	1.00	1.00	1.00
Receptionist	1.00	1.00	1.00	0.00
Administrative Assistant	1.00	1.00	1.00	0.00
Customer Service Representative	1.00	3.00	3.00	2.00
<i>Customer Service (Processing)</i>	<i>1.00</i>	<i>3.00</i>	<i>4.00</i>	<i>3.00</i>
Customer Service Team Leader	-	1.00	1.00	1.00
Imaging Coordinator	-	-	1.00	1.00
Customer Service Coordinators	1.00	2.00	2.00	1.00
<i>Payouts</i>	<i>0.00</i>	<i>0.00</i>	<i>2.00</i>	<i>2.00</i>
Payout Coordinator	-	-	2.00	2.00
Marketing Department	4.00	4.00	6.00	2.00
Manager/Deputy Director	1.00	1.00	1.00	0.00
<i>Communications/Productions</i>	<i>1.00</i>	<i>1.00</i>	<i>1.00</i>	<i>0.00</i>
Publications Manager	1.00	1.00	1.00	0.00
<i>Public Relations/Marketing</i>	<i>2.00</i>	<i>2.00</i>	<i>4.00</i>	<i>2.00</i>
Public Relations Manager	1.00	1.00	1.00	0.00
Legislative Representative	1.00	1.00	1.00	0.00
Regional Representatives	-	0.00	2.00	2.00
Other	-	1.00	-	0.00
Total Authority Staff	16.50	23.75	28.75	12.25

Source: Authority personnel records

As the Authority has expanded operations and increased the overall client base, the number of FTEs directly employed by the OTTA has increased. Authority administrators indicated that additional positions were most necessary in Operations. While some Operations functions were previously outsourced to private vendors, the OTTA now completes all aspects of Operations in-house. IT and Marketing continue to use consultants for specialized tasks.

Summary of Operations

The core services provided by OTTA are administered through the following functions:

- Administration
- Operations
- Marketing

The Administration in the OTTA encompasses the executive director, and financial, human resources and information technology management. For the purposes of this study, information technology (IT) is grouped into the Administration, as the IT Department serves the entirety of the Authority. Also, the executive director is included in all Administration calculations. Within the Administration, the executive director is responsible for directing the overall day-to-day operations of the Authority. The deputy director of finance and his staff are responsible for developing the Authority's budget, monitoring expenditures, performing tuition benefit payouts, and other fiscal functions. The deputy director of finance also supervises the human resources and IT functions and acts on behalf of the executive director in her absence. The part-time human resources coordinator is responsible for ensuring Authority personnel policies are in compliance with state and federal law, assisting in recruitment, processing payroll and planning training. Customer service applications and Web site development represent the basic functions of the IT Department. Because commercial software has not been developed for the prepaid tuition plans, IT is responsible for the design and maintenance of the Authority's record keeping applications. In total, 8.75 FTEs comprise the Administration.

Customer service, including enrollment, payment processing, record keeping and payout processing are all responsibilities of the Operations Department. Operations provides phone operators for client queries, data entry personnel to enter client information, an imaging coordinator to scan client records, and payout personnel to coordinate tuition benefit payments with university bursars. Overall, Operations is responsible for client satisfaction and retention. The Operations Department employs 14 FTEs and, during the enrollment period, supplements existing staff with temporary workers.

The Marketing Department's primary responsibility is to recruit new clients. The Department directs an annual statewide marketing campaign, develops strategic marketing plans, provides speakers for local engagements, and enrolls companies in the OTTA's direct deposit purchasing plan. The bulk

of the Authority's non personnel expenditures are dedicated to the marketing function, particularly direct mailings to potential new clients. Six FTEs are employed in the Marketing Department.

Fund Accounting

The OTTA uses the enterprise fund basis of accounting to record account activity. Fund accounting uses a set of self-balancing funds to account for all activity. In an enterprise fund, operations of the enterprise are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is to provide goods or services to the general public on a continuing basis while recovering the cost through the sale price. The activities of the OTTA are reported as an enterprise fund since the cost of the providing the prepaid tuition program is recovered through revenues of the program. The OTTA receives no direct appropriations from the state.

OTTA classifies resources into three separate funds for accounting purposes. These funds are described below:

- **Trust Fund:** The Trust Fund is used to account for the assets and the actuarial liability related to providing future tuition payments for participants. This fund is restricted in use and can only be used to pay claims for the payment of tuition contracts.
- **Reserve Fund:** The Reserve Fund is used to account for administrative revenues related to the program such as enrollment fees (approximately \$0 to \$50) and the administrative portion of each tuition unit (approximately \$5.00 for each tuition unit purchased). According to OTTA management, the Reserve Fund also serves as an emergency account to be used in the event that tuition liabilities exceed the funds available in the Trust Fund.
- **Operating Fund:** The Operating Fund is used to account for administrative costs and appropriations of the program. Funds are transferred from the Reserve Fund when necessary to pay the costs of operating the program.

If the program is terminated or liquidated, the OTTA Reserve and Operating funds, as well as any remaining assets in the Trust Fund, will be transferred to the General Fund of the state after all obligations of the fund have been satisfied.

Authority Indicators

The OTTA offers tuition units for sale to residents of the state of Ohio. An average four-year college education at a state university in Ohio requires the purchase of approximately 400 tuition units. Additional units may be purchased to cover the cost of room and board or tuition at out-of-state universities. Through annual actuarial studies, the OTTA Board determines the cost of tuition units. The tuition unit cost is based on factors including the average increase in real tuition cost, the percentage of interest earned by investments, and the percentage of funds as a surplus of the Trust Fund. The cost of units to purchasers is also dependent on the age of the child at time of purchase and the methodology by which the purchase is made. **Table 2-2** shows the annual cost increase of OTTA tuition units and the average increase in the cost of state university tuition. As shown, average tuition has increased at a higher rate than the actual cost of OTTA tuition units in all years except in enrollment year (October 1 to September 30) 1996-97.

Table 2-2: OTTA Tuition Unit Cost and Ohio Tuition Cost Five-Year History

Enrollment Year	Cost Per Unit	Annual Unit Cost Increase	Average Cost Increase of State University Tuition
1994-95	\$37.50	N/A	5.17%
1995-96	\$39.50	5.33%	5.60%
1996-97	\$42.00	6.33%	5.73%
1997-98	\$43.00	2.38%	4.49%
1998-99	\$45.50	5.81%	6.41%
1999-00	\$47.50	4.40%	5.10%

Source: OTTA records

Operating cost increases are reflected in new clients enrolled and served by the Authority. **Table 2-3** shows annual increases in client accounts and operating expenditures for the OTTA.

Table 2-3: OTTA Operating Cost Indicators

	1994-95	1995-96	1996-97	1997-98	1998-99
Total Active Clients	41,640	51,758	58,146	62,399	74,024
New Clients by Year	10,118	6,388	10,600	11,068	12,595
Annual Percentage Increase in Total Active Clients	11.35%	24.30%	12.34%	7.31%	18.63%
Annual Operating Cost	\$2,005,545	\$2,245,438	\$2,240,428	\$2,658,228	\$2,959,701
Annual Percentage Increase in Operating Costs	N/A	11.96%	-0.22%	18.65%	11.34%
Operating Cost per New Client	\$198	\$352	\$211	\$240	\$235
Operating Cost per Active Client	\$48	\$43	\$39	\$43	\$40
Expenditures as a Percentage of All Assets ¹	1.31%	1.23%	0.94%	0.85%	0.72%
Expenditures as a Percentage of Increase in Trust Fund Assets	N/A	7.62%	3.60%	2.99%	3.76%

Source: OTTA and peer records

¹ Expenditures as stated in audited financial statements.

The Authority has recorded double digit increases in clients for all years except FY 1995-96. The average annual percentage increase in client accounts over the five-year period is 14.78 percent. In contrast, the average annual percentage increase in operating expenditures is 10.43 percent. Over the past five years, the operating cost per active client has decreased in all years except FY 1997-98. Operating costs as a percentage of increase in trust fund assets has also decreased, except in FY 1998-99.

In the following sections, the OTTA is compared to similar agencies in Michigan, Pennsylvania and Texas. The Michigan Educational Trust (MET) was formed in 1988 and is managed through the Michigan State Treasury Department. MET performs all program functions in-house with the support of the Treasury Department. Pennsylvania's Tuition Account Program, nicknamed TAP, was created in 1992 and is a division within the Pennsylvania State Treasury Department. TAP uses outsourced vendors for a portion of marketing and investment management, but performs customer service and record keeping functions in-house. The Texas Tomorrow Fund (TTF) was created in 1996 and is administered through the Texas State Comptrollers Office. All TTF functions, except administration and investment management, are outsourced.

Table 2-4 shows the difference in annual operating cost increases between Ohio and the peers. Also, cost per client by type and investment returns are shown below.

Table 2-4: Annual Operating Cost Increases and 1999 Cost Per Client by Type

	Ohio	Michigan	Pennsylvania	Texas	Peer Average
Average Annual Operating Cost Increase 1997-1999	10.43%	33.30%	123.21%	26.47%	48.35%
1999 Cost per New Client	\$235	\$1,166	\$464	\$827	\$673
1999 Cost per Active Client	\$40	\$30	\$120	\$63	\$63
Weighted Return on Investment	11.40%	Not calculated ¹	11.70%	6.00% ²	9.70%
FY 1999 Operating Costs as a Percentage of Total Assets	0.72%	0.22%	2.25%	0.62%	0.95%

Source: OTTA and peer records

¹ The MET fund is one of a number of small investment programs managed by the Bureau of Investments in the Department of the Treasury. The return on investment is not tracked because of the small size of the fund.

² FY 1999 was a low return year for the Texas Tomorrow Fund. The average return over the life of the program is 7.58%, still well below that of Ohio and Pennsylvania.

When compared to the peer agencies, the annual operating cost increases in Ohio were the lowest of the peers. The OTTA's cost per new client is also the lowest of the peers at approximately one-fifth of Pennsylvania's cost and one-third of Texas' cost. Ohio's 1999 cost per active client is the second lowest of the peers and \$23 below the peer average.

Table 2-5 includes a three-year history of client accounts, operating costs and total fund assets for Ohio and the peers.

Table 2-5: Authority Indicators, FY 1996-97 to FY 1998-99

	Ohio	Michigan	Pennsylvania	Texas	Peer Average
Initial Program Year	1989	1988	1992	1996	1991
FY 1996-97					
Authority FTEs	23.75	11.00 ¹	13.00 ¹	12.00 ¹	14.94
Total Active Client Accounts	58,146	56,016	18,548	65,000 ²	49,428
Operating Costs	\$2,240,428	\$994,651	\$899,000	\$3,625,201	\$1,939,820
Total Authority Assets	\$270,177,146	\$744,040,126	\$86,637,000	\$486,118,303	\$396,743,144
FY 1997-98					
Authority FTEs	26.75	11.00 ¹	13.00 ¹	12.00 ¹	15.69
Total Active Client Accounts	62,399	57,236	21,417	70,000 ²	52,763
Operating Costs	\$2,658,228	\$1,382,848	\$1,053,000	\$3,982,360	\$2,269,109
Total Authority Assets	\$345,685,153	\$805,217,082	\$118,741,000	\$587,521,552	\$464,291,197
FY 1998-99					
Authority FTEs	28.75	15.00 ¹	19.00 ¹	14.50 ¹	19.31
Total Active Client Accounts	74,024	58,749	28,895 ³	75,804	59,368
Operating Costs	\$2,959,701	\$1,764,200	\$3,467,518	\$4,799,934	\$3,247,838
Total Authority Assets	\$427,701,117	\$809,100,000 ⁴	\$154,161,010	\$780,177,671	\$542,784,950
FY 1999 Outsourced FTEs	0.00	5.00	6.00	13.00	6.00
FY 1999 New Clients	12,595	7,500	1,513	9,676	7,821
FY 1999 Program Beneficiaries (Payouts)	3,450	10,029	1,506	5,000	4,996

Source: Authority interviews and records

¹ Michigan, Pennsylvania and Texas augment staffing through private vendors and/or interagency service personnel (See F3.7, F4.8, F4.9, F4.12 and F5.8).

² Approximate data was provided by Texas for FYs 1996-97 and 1997-98

³ As of December 31, 1998

⁴ As of September 1998

As shown in **Table 2-5**, Ohio has the second oldest program of the peers but only the third highest amount of assets under management. During all three years shown, OTTA has the highest number of FTEs employed. The peer average for FTEs employed directly by their authority ranges from approximately 16 to 19 FTEs. Ohio has maintained the second greatest number of client accounts during the historical period, surpassed only by Texas. Also during FY 1998-99, Ohio recruited the largest number of new clients, surpassing the next highest, Texas, by approximately 30.17 percent. Ohio's number of client accounts is also well above the peer average of approximately 49,000 to 59,000 client accounts. Ohio's costs are the second highest of the peers during FYs 1996-97 and 1997-98, but the second lowest during FY 1998-99.

The lower total assets held by OTTA in relation to the number of client accounts is attributable to the method by which Ohio sells shares in the prepaid tuition program. In Michigan and Texas, clients purchase a two or four-year contract that may be paid for in full, or over a five, ten or eighteen-year period. Clients are bound by the contract to pay a regular, consistent amount over the life of the contract. In Ohio, clients may purchase individual units but must accrue 400 units to prepay four years of tuition at an average priced state university. Pennsylvania also uses a unit purchase methodology. Although Ohio clients are bound by contract provisions, purchases may be made at any time and in any amount and, therefore, the number of units purchased varies greatly. The variances in purchases may be reflected in the smaller trust fund balance held by the OTTA when compared to the peers. The Ohio unit purchase method is intended to reduce the cost burden on consumers, but the monthly payment methods offered by the peers have the same effect on a client's initial and monthly costs. OTTA management has asserted that Authority costs may be higher than the peers due to the purchase methodology and the more intensive labor required to process monthly payments. Cost data, presented above, shows that the prepaid tuition purchase method has a negligible effect on overall operations costs when compared to the contract purchase method.

The measure of a prepaid tuition program's success may be judged based on the number of children within the state who are enrolled in the program. The OTTA and peer authorities are mandated to provide an affordable means to secure higher education in their states. Each authority gears its program to reach families who are most likely to be ineligible for state and federal grants. According to the OTTA and peers, the prepaid tuition programs are often considered most appropriate for families with an annual reported income over \$35,000. Using 1990 census data, the target potential client population— under 18 years of age— is shown for each state in **Table 2-6** below.

Table 2-6: Population Served By Agency

	Ohio	Michigan	Pennsylvania	Texas	Peer Average
Population (1990)	11,021,419	9,443,665	11,995,405	17,682,538	12,535,757
Percent Population Under 18 Years of Age (1990)	25.80%	26.50%	23.50%	28.50%	26.08%
Percent Households Earning Over \$35,000 (1990)	35.20%	31.70%	34.80%	34.60%	34.08%
Total Target Population (1990)	1,000,921	792,475	980,984	1,743,675	1,129,514
Total Clients as of June 30, 1999	81,809	75,236	30,301	86,000 ¹	68,337
Target Percent Served	8.17%	9.49%	3.09%	4.93%	6.42%

Source: 1990 U.S. Census, Authority and peer records

¹ Texas was unable to provide a total client count as of June 30, 1999. The 86,000 figure provided was estimated by the director of the program.

Based on the age and income target criteria outlined above, Texas has reached the largest number of target group children, almost 70 percent more than Ohio and over twice as many as Michigan. Only

Michigan surpasses Ohio in the percentage of target group children who are served by the program. Currently, the OTTA serves approximately 8.17 percent of target group children in Ohio. In the case of target percent served, the age of a program appears to have a strong effect as Michigan and Ohio, both with the oldest programs of the peers, have between 5.1 and 6.4 percent more target clients than Pennsylvania and Texas. Program longevity may contribute to increased name recognition and perceptions of greater investment security.

Expenditures by program function for FY 1998-99 for the OTTA and peers are shown in **Table 2-7**.

Table 2-7: 1999 Operating Costs by Expenditure Category and by Program

	Ohio	%	Michigan	%	Pennsylvania ¹	%	Texas	%
Administration	\$1,376,353	46.5%	\$1,262,425	71.6%	\$85,534	2.4%	\$1,999,318	41.7%
Operations	\$561,287	19.0%	\$248,100	14.0%	\$1,119,184	32.3%	\$1,364,928	28.4%
Marketing	\$1,022,061	34.5%	\$253,675	14.4%	\$2,262,800	65.3%	\$1,435,688	29.9%
Total²	\$2,959,701	100.0%	\$1,764,200	100.0%	\$3,467,518	100.0%	\$4,799,934	100.0%

Source: OTTA and peer authority records

¹ Pennsylvania's Administration costs encompass only the executive director's salary and benefits. IT and finance functions are provided through interagency services and are not recorded as expenses of the program.

² Some costs differences shown in Michigan, Pennsylvania and Texas may be attributable to interagency services and private vendor services used by the authority (See **F3.7, F4.8, F4.9, F4.12 and F5.8**).

Although Ohio had the second lowest operating costs for 1999, Ohio had the second highest Administration Department costs, both as a percentage of overall expenditures and in total dollars spent. Michigan had the highest percentage of expenditures directed to the administration function of the program. Pennsylvania does not account for IT or finance functions in administration costs as these functions are provided through interagency services that are not attributed to TAP costs. Texas expended the highest dollar amount for administration, the majority of which was used for salaries and benefits. Ohio had the third highest expenditures for marketing. Texas outsourced a majority of marketing functions which may be more costly, while Pennsylvania invested heavily in television advertising.

An evaluation of certain areas of Authority operations is contained in the following sections:

- **Administration:** The Administration section contains findings, commendations and recommendations on OTTA's financial, human resources, and information technology functions.
- **Operations:** This section contains findings, recommendations and commendations of OTTA's practices in Operations, including customer service, record keeping, and payouts.

- **Marketing:** The Marketing section contains findings, recommendations and commendations of the Authority's efficiency and effectiveness of marketing practices.

Each section commences with a list of performance measures developed during the planning stage of the audit to be used to evaluate various aspects of that area of Authority operations.

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Administration

Performance Measures

The following performance measures were used to analyze the Administration Department of the Ohio Tuition Trust Authority:

- Assess the efficiency and effectiveness of Administration Department functions
- Evaluate the utilization of staffing resources
- Assess the efficiency and effectiveness of information technology
- Assess the efficiency and effectiveness of human resources function
- Evaluate the effectiveness of long range planning
- Assess the efficiency and effectiveness of financial management strategies
- Analyze the cost impact of Reserve Fund policies
- Analyze the cost impact of tuition unit policies

Findings/Commendations/Recommendations

Administration Department Expenditure Analysis

F3.1 OTTA Administration Department expenses encompass staff wages and benefits for Administration Department employees, general administrative and office costs, purchased services used in the Administration Department and all costs for information technology (IT). The Administration Department includes the executive director, who manages day to day operations; the deputy director of finance and his staff, who are responsible for OTTA budgeting and accounting activities; the application developer and her staff, who are responsible for the development and maintenance of the OTTA's information systems; and the human resources coordinator, who provides assistance in hiring, evaluating and training employees, and processes and maintains the Authority's payroll. **Table 3-1** shows expenditures by category for the Administration Department.

Table 3-1: Administration Department Expenditures by Category, Three Year History

	FY 1996-97	FY 1997-98	% Change	FY 1998-99	% Change
Administration Department					
Staff Wages & Benefits	\$461,259	\$492,363	6.74%	\$533,204	8.29%
Materials, Supplies and Rent	\$133,289	\$229,804	72.41%	\$205,611	(10.53)%
Purchased Services	\$225,663	\$230,382	2.09%	\$279,903	21.50%
Information Technology	\$31,923	\$112,646	252.87%	\$311,040	176.12%
Other	\$52,027	\$48,015	(7.71)%	\$46,595	(2.96)%
Administration Department Total	\$904,161	\$1,113,210	23.12%	\$1,376,353	23.64%

Source: OTTA financial records

F3.2 OTTA Administration Department costs have increased during the three-year period at rates well above inflation. Large expenditures in information technology were used to implement more sophisticated customer service and record tracking applications. Salaries and benefits also increased at a rate above inflation based on Authority pay increases and additional staff in the Administration Department. Purchased services costs reflect consulting fees for technology implementation and financial services.

F3.3 The OTTA Administration Department carries out functions similar to the administration in the peer authorities. Michigan, Pennsylvania and Texas all employ executive directors, financial management personnel and information technology personnel. In most cases, employees categorized as financial management personnel serve as the authority's comptroller. The duties of information technology personnel vary widely depending on the

technology functions performed by the authority. If all operations are performed in-house, IT costs are higher than those agencies that outsourced portions of IT or rely on interagency IT services. Administration Department costs for Ohio and the peer authorities are shown below.

Table 3-2: 1999 Administration Department Expenditures

	Ohio	Michigan	Pennsylvania	Texas	Peer Average
Administration Department Costs	\$1,376,353	\$1,262,425	\$85,534	\$1,999,318	\$1,180,908
Total Operating Costs	\$2,959,701	\$1,764,200	\$3,467,518	\$4,799,934	\$3,247,838
Administration Department as a Percent of Total Costs	46.50%	71.56%	2.47%	41.65%	40.55%
Administration Department Cost per Active Client Account	\$18.59	\$21.49	\$2.96	\$26.37	\$17.36

Source: OTTA and peer financial records

F3.4 Ohio's Administration Department cost per client account is the second lowest of the peers by approximately \$2.90 to \$7.78 per account. However, Ohio ranks as the second highest in total Administration Department costs and second highest in costs as a percent of total costs when compared to the peers due to the size of Ohio's program and the manner in which the peer authorities allocate expenditures. Pennsylvania's costs are artificially low as TAP program IT and investment expenditures, functions commonly housed in Administration Department, are performed within the Pennsylvania Department of the Treasury and costs are not charged to the program. Although Michigan's IT is also housed in the Department of the Treasury, the MET program pays an interagency service cost for IT services. When evaluating the functions performed by the OTTA's Administration Department in comparison to the peers, the Authority's Administration Department appears cost effective; the higher expenditures appear valid and provide cost savings in other areas. Supporting documentation for this conclusion may be found in **F4.3, F4.5, F4.6, C4.1, F5.3** and **C5.1** of the *operations* and *marketing* sections.

C3.1 The OTTA Administration Department provides a high level of services to the Authority and creates cost savings in other operational areas. Services performed by portions of the OTTA Administration Department are commonly outsourced in the peer agencies or performed through interagency services. While the Authority incurs costs similar to or slightly higher than the peer authorities for the Administration Department, the overall level of services provided within the OTTA Administration Department is much higher than the services provided in the peers.

Staffing

F3.5 The function of the Administration Department is to carry out the decisions of the Board through the day to day operations of the Authority. The Administration Department is made up of 10 employees including the executive director, the deputy director of finance and his staff, the application developer and her staff, and the human resources coordinator. **Table 3-3** describes the general duties of the Administration Department employees.

Table 3-3: Position Descriptions for OTTA Administration Department

Administration Department Position	Description of Duties
Executive Director	<ul style="list-style-type: none"> • Directs the administrative operations of the OTTA • Provides overall leadership • Administers operational and management policies
Executive Administrative Assistant	<ul style="list-style-type: none"> • Assists Operations in customer service function • Serves the executive director, OTTA Board and OTTA management team in overall administrative responsibilities
Deputy Director of Finance	<ul style="list-style-type: none"> • Manages budgetary and fiscal operations of the Authority • Directs the finance, IT and HR staff • Acts on behalf of Authority executive director in her absence • Makes necessary administrative decisions/policy interpretations for efficient and effective management of the Authority
Comptroller	<ul style="list-style-type: none"> • Coordinates and conducts account fund activities • Assists and monitors Authority budget functions and accounting activities • Provides financial reporting and analysis for Authority • Supervises fiscal coordinator
Fiscal Coordinator	<ul style="list-style-type: none"> • Coordinates and performs accounts payable functions • Assists with budget planning and reporting • Responsible for physical inventory, automobile records, OTTA phone management and maintaining office supplies
Financial Analyst	<ul style="list-style-type: none"> • Maintains, coordinates and processes tuition payment account functions • Provides assistance and backup to the Authority finance staff • Oversees the internal accounting program in conjunction with State Office of Budget and Management
Application Developer	<ul style="list-style-type: none"> • Administers and manages IT needs, functions and projects • Develops system specifications, writes documentation and programs • Oversees programming functions, and data operations processing and filing • Plans, researches, purchases and installs IT hardware and software, provides technical assistance, and serves as network administrator • Manages client/server application development projects
Information Systems Operations Manager	<ul style="list-style-type: none"> • Supports network systems and performs network administration duties • Maintains and monitors local and Internet mail systems • Serves as help desk • Maintains PC inventory and recommends new hardware and software
Human Resource Coordinator	<ul style="list-style-type: none"> • Part-time position responsible for all personnel related activities for the Authority including recruitment, interviewing, hiring, payroll, HR law and compliance • Shares in leadership planning

Source: OTTA position descriptions

F3.6 A comparison of the peer agencies to the OTTA based on organizational charts shows the following staffing levels for each function of the authorities.

Table 3-4: Peer Agency Administration Department Staffing Levels (in FTEs)

	Ohio	Michigan	Pennsylvania	Texas	Peer Average
Executive Director	1.00	1.00	1.00	1.00	1.00
Finance	4.25	2.00	1.00	5.00	3.06
IT	3.00	0.00 ¹	0.00 ¹	1.00 ¹	1.00
Human Resources	0.50	0.00	0.00	0.00	0.13
Other (Administrative Assistant)	0.00 ²	2.00	2.00	1.00	1.25
Total Administration Department Staff	8.75	5.00	4.00	8.00	6.44

Source: Peer agency organizational charts

¹ IT functions are provided by parent agency

² OTTA's administrative assistant assists the Operations Department in customer service and is shown as a customer service FTE throughout the *operations section*.

F3.7 As shown above, OTTA employs the greatest number of individuals in the Administration Department when compared to the peer authorities. Even with the exclusion of OTTA IT employees, the OTTA employs the second highest number of Administration Department personnel among the peers. Ohio's Administration Department costs are the second highest in the category of administration but the second lowest overall in comparison to the peer agencies (see **Table 2-7** in the *background section*). The additional personnel housed in the OTTA Administration Department appear to hold positions integral to the in-house IT and finance components of the Administration Department.

Factors such as the age of a program or the location of the program within the state government do not appear to affect staffing levels. Texas, the most recently implemented of the programs, has the second highest staffing level, while Michigan, the oldest of the programs, has the second lowest staffing levels. The two authorities housed in the departments of the treasury have the lowest in-house staffing levels of the peers. Although the location of the authority within the state government appears to have an impact on authority FTE levels, interagency services compensate for low FTE levels. These functions are reflected in higher FTE counts in independent agencies.

In-house versus outsourced or interagency functions appear to also have bearing on administration costs. Outsourced record keeping and customer service functions, as well as marketing tasks, are considerably more expensive for the peer authorities when compared to the cost of personnel performing similar functions in the OTTA. Due to the high number of program functions performed in-house, the OTTA's Administration Department costs appear reasonable in relation to overall Authority operating costs.

- F3.8 OTTA employees are compensated in the same manner as unclassified State employees. According to recent salary schedules, the annual salary and benefits costs incurred by the 10 employees in the Administration Department are approximately \$506,143 for an average per employee cost of \$50,614. Employee benefits include an employer contribution to the Public Employee Retirement System (PERS) on behalf of each employee that is approximately 13 percent of the employee's annual salary and insurance coverages such as health, dental, vision, disability and life. OTTA benefits constitute approximately 25 percent of salaries.
- F3.9 In 1999, the OTTA contracted with a private sector consultant to conduct a salary study in order to determine how OTTA positions compare with similar positions in the public and private sectors. The study focused on salary ranges and incumbents' placement within those ranges. Using private sector salary surveys for 1999 and updated State of Ohio civil service salary step system ranges, comparable job descriptions from the public and private sectors were identified and analyzed for comparability of salary ranges. Summarized results by position are shown in **Table 3-5**.

Table 3-5: Wage and Salary Analysis, OTTA Administration Department

OTTA Administration Department Position	Private Sector	Public Sector
Executive Director	Not Evaluated	Not Evaluated
Executive Administrative Assistant	Comparable	Comparable
Director of Finance	High	Comparable
Comptroller	Low	Low
Fiscal Coordinator	Low	Low
Financial Analyst	Low	Low
Information Systems Operations Manager	Comparable	Comparable
Application Developer	Comparable	Comparable
Human Resources Coordinator	Low	Low

Source: Reigle Consulting Services study

In general, the study found OTTA Administration Department salary ranges to be consistent with comparable positions in the public and private sectors. However, entry-level position pay ranges were low in comparison to the public sector, which may be a disadvantage to the OTTA in recruiting for entry-level positions.

- F3.10 The Authority increased starting salaries in selected areas based on the recommendations of the salary study. Salaries for positions classified as low in both the public and private sectors, usually high turnover positions, were raised an average of 5.6 percent. Although the increased salaries resulted in an increased level of retention during FY 1998-99, the low hourly wage may continue to disadvantage the OTTA in attracting experienced employees.

R3.1 When the opportunity arises, the Authority should increase the wages in low level, high turnover positions to a more competitive level. Although the Authority is sensitive to high employee turnover and recognizes its need to be competitive in the marketplace, low hourly wages in entry level and high turnover positions disadvantage the OTTA in recruiting and retaining experienced employees. The Authority should reexamine all salaries and ensure that current Authority salaries reflect the pay rates of other public sector agencies.

Information Technology

F3.11 The Authority maintains its own IT Department which is supervised by the deputy director of finance and which resides within the Administration Department of the OTTA. Other tuition trust authorities have small IT departments, use interagency IT services, or outsource all record keeping and customer service retaining only minimal technology applications for authority financial management.

F3.12 The Authority's IT Department is responsible for all software applications pertaining to the management of the Authority and the prepaid tuition program. The IT Department maintains three separate and distinct automated information systems. The American Fund Order financial accounting software system is used for in-house financial reporting and was installed in 1998. The customer service software system, replaced in 1999, is a custom designed system and is accessible from all PCs within the Authority. The software allows for interfaced operations with the OTTA's Web site and Interactive Voice Response (IVR) system. OTTA also uses the state's Central Accounting System (CAS) for payroll processing.

F3.13 The Authority submitted an Information Technology Plan to the state Office of Information Systems Policy and Planning in October of 1998. Although the plan has not been updated, it appears that actions documented in the plan for FYs 1997-98, 1998-99 and 1999-2000 have been completed or are in progress. Planned and completed upgrades, increased use of technology and proposed studies have been implemented and have markedly improved the Authority's technology base and overall customer service functions.

C3.2 OTTA's Information Technology Plan is very detailed and includes both proposed expenditures for projects and potential cost savings through technology implementation. Through the plan, the IT Department demonstrates a broad knowledge of current trends in information technology as well as an ability to apply such innovations to the Authority's operations. Long term planning for IT development ensures continuity between platforms, programs, and managers.

R3.2 The Authority should update its technology plan on an annual basis and publicize completion of large technology projects. Although the OTTA's technology plan is very detailed and complete, it has not been updated for two years and, therefore does not reflect completion

of large scale projects which are reflected in past expenditures. Incorporating reports of completed projects in OTTA annual reports and budget requests would provide the legislature and public with concrete results of technology expenditures.

F3.14 The OTTA has implemented a business continuity plan which recognizes the negative impact any disruption of services may have on its mission. The plan was updated and augmented after the 1999 Auditor of State Management Letter highlighted the absence of certain steps in the OTTA's plan. The updated plan identifies critical functions and prioritizes these functions by disaster levels. A level five disaster is the least severe and is related to "non-mission critical data." A level one disaster involves significant damage to the OTTA facility, data and equipment. Recovery from this type of disaster requires implementing an emergency processing center at an off-site location, acquiring and installing emergency data processing equipment, and restoring a full tape backup of OTTA data to the emergency servers. The plan identifies staff responsibilities, facility needs and alternative off-site facilities.

C3.3 The OTTA's revised business continuity plan guarantees minimization of disruption in business services in the event of a catastrophe. The plan was revised based on the Auditor of State's 1999 Management Letter recommendations. The OTTA's business continuity plan is comprehensive and categorizes the levels of disasters and the appropriate responses for each level of emergency. The Authority maintains backup software and data files off-site in a safety deposit box at a local bank. A log is maintained which identifies when files were exchanged and updated.

F3.15 IT costs encompass a large portion of OTTA's Administration Department expenditures. Although Authority IT functions cover operations outsourced in some of the peer agencies, such as record keeping, all peer agencies retain at least one individual to manage limited information systems operations. When compared to Michigan, where IT functions are handled through the Department of the Treasury, OTTA's IT costs were approximately \$38,960 less than Michigan's. In Texas, outsourced records management, a task which comprises only a portion of the OTTA IT's duties, cost \$1,166,058 in FY 1998-99. The differences in Ohio, Michigan and Texas IT functions and related costs are shown below in **Table 3-6**.

Table 3-6: Comparison of In-house and Outsourced IT Functions¹

	IT Functions	In-house or Outsourced ²	1999 Cost	IT Cost per Active Client Account
Ohio	Development and maintenance of: -Customer service applications -Records maintenance applications -Authority Web site -Financial management applications	In-house	\$311,040	\$4.20
Michigan	Development and maintenance of: -Customer service applications -Records maintenance applications -Authority Web site -Financial management applications	Department of Treasury	\$350,000	\$5.96
Texas	Development and maintenance of: -Customer service applications -Records maintenance applications	Private Contractor	\$1,364,928	\$18.01

Source: Peer authority records

¹ Pennsylvania was unable to provide this information.

² Outsourced functions include those performed by a private contractor, interagency personnel or another state agency.

The OTTA's overall IT costs and IT cost per active client account are lower than the overall IT costs and IT cost per client in Michigan and Texas. The Authority's expenditures for the IT function are slightly less than Michigan and approximately four times less than the cost of the outsourced functions in Texas.

F3.16 The OTTA has conducted informal privatization assessments in the past to determine the feasibility of outsourcing a portion of IT functions. Based on the in-house privatization assessments, OTTA determined that outsourcing was not a cost-effective option. A standard privatization opportunity assessment for OTTA's IT functions is shown below.

Table 3-7: IT Privatization Opportunity Assessment

Assessment Criteria	Key Issues	IT
Sufficient volume?	Is the volume of work associated with function/activity sufficient to justify internal performance?	Yes
Prohibitive control requirements?	Are the management, oversight and control requirements associated with external performance of the functions excessive?	Yes
Complexity?	Is the function/activity too complex to be performed by external resources?	No
Influenced by regulatory environment?	Is the performance of the function/activity regulated?	No
Significant capital investment?	Are significant capital investments required in association with the internal performance of the function/activity?	Yes
Procurable services?	Are high quality, external service providers available to perform the function/activity?	Limited
Significant operating costs?	Will the potential benefits of utilizing external resources likely offset/exceed the potential costs?	No
Quality?	Is there a high probability that external performance of the function/activity would reduce quality and service levels?	Yes
Potential Privatization Opportunity		Low

Through discussions with the OTTA and the peers, it has been determined that only a limited number of organizations are available to provide IT services of the type required by the OTTA. In addition, software for account maintenance is not commercially produced at this time. Based on this assessment, it appears that the Authority's IT services have a low potential for privatization. A lack of service providers and the potential decline in quality indicate that privatization would not benefit the Authority. The IT function at OTTA operates efficiently under OTTA management and the IT cost is lower than the peer agencies. According to Authority personnel, the IT department provides excellent service.

C3.4 The Authority's IT function fills a valuable role that is outsourced at great expense in the other agencies examined. In comparison to the peer agencies, the OTTA's IT function is less expensive and appears to provide the Authority with cutting edge technology for customer service and record keeping applications. The efficiency of the Authority's in-house IT function may aid in keeping staffing and program costs low.

R3.3 The OTTA IT department should consider including upcoming challenges, such as the potential implementation of Affinity and debit cards in all technology planning documents. Future technology development should be integrated with plans articulated in the Strategic Vision for 2005, as well as any other planning documents. As OTTA refines the Authority's mission, the IT department will be required to offer increasingly sophisticated technology to meet consumer demands.

Human Resources

- F3.17 The OTTA employs a part-time human resources coordinator to serve the Authority's 30 employees. OTTA is the only agency of the peers to employ a human resources position within the agency. The human resources coordinator reports to the deputy director of finance and is responsible for updating the personnel manual and job descriptions; coordinating recruitment; interviewing candidates for employment; conducting orientation for new employees; maintaining employee files; ensuring compliance with state and federal employment regulations; coordinating performance evaluations, development and training; processing payroll; as well as performing other duties as needed. The deputy director of finance stated that the human resources coordinator's most important functions are those relating to labor laws and state compliance issues.
- F3.18 The OTTA distributes an associate handbook that includes the Authority's personnel policies. The associate handbook was last revised in July 1999 and appears up-to-date and complete. The handbook is based on personnel policies published by the Department of Administrative Services (DAS) and outlines Authority values and policies, employee opportunities, communications, employee expectations, and compensation and benefits.
- C3.5** The Authority's associate handbook is current and complete, and details Authority policy and procedures. By providing a comprehensive handbook of Authority policies and personnel policies, the OTTA provides employees with detailed information on their role in the organization and helps ensure continued compliance with state and federal laws.
- F3.19 All positions within the Authority are described in job descriptions written by the deputy director of finance, the human resources coordinator, and other employees in the OTTA. The individual job descriptions cover all aspects of the various positions and are highly detailed. Employees in the Administration, Operations and Marketing departments stated that the job descriptions are reflective of their day-to-day duties. The job descriptions currently in use were updated in 1999.
- C3.6** Current, detailed job descriptions are important to overall Authority program operations as they clearly establish the OTTA's expectations of each employee. Within the individual departments, job descriptions allow for the standardization of duties and service levels. In addition, the detailed description of duties outlined in the job descriptions allows for relevant evaluation of job performance.
- F3.20 The OTTA uses a rolling appraisal (evaluation) process which ensures all employees are evaluated on a quarterly basis. The rolling appraisals take into account improving or declining performance, completed training and continuing education, and other aspects of employee

development. According to OTTA management, the rolling appraisal methodology provides managers with greater opportunities for formal feedback.

C3.7 The current evaluation methodology in use by the OTTA allows for frequent, formal review of employee performance and development. Through quarterly evaluations, employees are apprized of areas for improvement, as well as achievements, on a regular basis.

R3.4 The Authority should emphasize employee training, education and development in the rolling appraisal process. Issues of employee development have been cited as a reason for high turnover in the Authority. Through emphasizing employee development in the evaluation process, the OTTA may be able to reduce turnover resulting from limited development opportunities.

Financial Management

F3.21 Although planning is considered an integral part of the Board and executive director's duties, the Board and executive director have not dedicated sufficient time for long range planning. Annual plans are developed by the Marketing Department to direct internal resource allocation but are not tied to overall Authority expenditures. Other departments do not prepare annual plans. In 1997, the Authority commissioned CJI Research Corporation to prepare a strategic plan. The 1997 plan was never updated and has since been discarded. Last year, the Authority contracted with Corporate Performance Systems of Westerville, Ohio to assist in the development of a strategic vision. The recently developed strategic vision does not include essential planning information, such as actions, deadlines and associated resource needs.

R3.5 The Authority should develop an agency wide, written strategic plan for the prepaid tuition program that includes objectives, definitions of desired outcomes, and realistic time lines for implementation. The format of a strategic plan is similar to the concept of a business plan as mentioned in the Authority's *Strategic Vision for 2005*. A comprehensive planning process should be enacted that involves the key parties of the OTTA leadership: the Board, the executive director and her departmental directors.

The purposes of the strategic planning process are to:

- Provide an ongoing framework for action upon which decisions can be made about what is being performed
- Create an understanding regarding the intent of the program and how its actions are moving the program toward the desired outcomes

- Provide a basis for the allocation of tasks, which includes the roles and responsibilities of each party
- Assess the program's current and past successes in order to inform the necessary parties
- Identify resources required to achieve the desired outcomes
- Improve performance through monitoring and eliminating activities that are not contributing to the desired outcomes
- Increase accountability for stakeholders and management

The strategic plan should:

- Establish the overall mission, vision, goals, objectives and strategies of the OTTA prepaid tuition program, and develop the means to meet the goals and objectives (action plans)
- Establish mechanisms for coordinating and monitoring projects among different departments, and vendors
- Address issues that are common to all Authority projects
- Prioritize projects
- Require realistic time frames with an implementation plan
- Describe interagency coordination and project leadership as well as project accountability

It is important to note that the key to a successful strategic planning process lies not only in the final document, but with strategically aligned interaction and communication among the parties involved. A successful strategic plan should also encompass several years of planning and be updated at least annually to reflect accomplishments and changes in priorities.

F3.22 Performance measures are defined as a system of client-focused quantified indicators that let an organization know if it is meeting its goals and objectives. Performance measures are a management tool that measure work performed and the results achieved. These same measures form a basis for management to plan, budget, structure the program and control

results. Performance measurement helps to ensure continuous provision of efficient and effective services.

F3.23 Although the tracks performance measures in each department, the Authority does not use a formal internal reporting package to benchmark performance to determine how effective the OTTA is in administering the prepaid program. The Authority tracks the performance levels of daily operations but does not link operations to objectives or determine overall departmental or Authority performance through performance measurement. Performance measures are reported on a limited basis in annual reports and press releases. Additionally, the OTTA does not require external parties, such as IT consultants, to formally report on the status of their work. Currently, information regarding the status of projects and contracts through outside vendors is shared informally within the Authority.

R3.6 The OTTA Board and executive director, with the assistance of key departmental personnel, should develop a methodology to obtain analyze and report the results of internal and external performance. It is important that the performance measures be aligned with the Authority's objectives to effectively evaluate the performance of the program. The Authority should be vigilant in developing, updating and reporting performance measures for all departments. Performance measures are an important component of building public trust and providing consumer information. The implementation of a performance measurement system is an evolutionary experience in which measures will likely improve with experience. Initially, the Authority should focus on common indicators. The types of performance measures most commonly used in government include:

- Inputs: resources used (what is needed)
- Outputs: activities completed (what is produced)
- Outcomes: results achieved
- Efficiency: how well resources are used
- Quality: effectiveness (how much has the Authority improved)

Each measure is designed to answer a different question. It is not always necessary to use all of the types of measures to determine if an objective is being achieved. Good performance measures need to be specifically defined and identified. Clear explanations are necessary to indicate what is being measured, the source of the information, and how the value is calculated. The use and reporting of performance measures may increase Authority efficiency and should better inform stakeholders of the Authority's performance.

F3.24 The executive director and deputy director of finance are responsible for developing the annual and biennial budgets for the Authority. Each department prepares a zero-based budget for evaluation by the Administration Department and inclusion in the Authority budget. The Authority budgeting process is described below:

- The state Office of Budget and Management (OBM) authorizes core budget levels (CBL).
- Each department builds its respective budget based on anticipated growth, programs and client expectations, as well as their respective functions.
- The departments submit its budget to the Authority's finance personnel for reconciliation with CBL amounts and overall agency costs.
- The budget document is finalized by the Authority management, approved by the executive director and the Board, and submitted to the OBM for approval.
- After the OBM approves the Authority's budget, the document is included in the biennial budget request and submitted to the Legislature for approval.

R3.7 The executive director and deputy director of finance should ensure that the departmental budgets reflect the action plans identified in the Authority's strategic plan. Departmental directors should be provided a strong voice in determining the goals, actions and necessary funding to operate their departments. Furthermore, departmental budgets should be highly specific and detailed to reflect the direct costs of program administration. Progress toward the strategic plan goals should be monitored through reports which incorporate Authority performance measures.

The annual Authority budget should be built upon departmental performance plans. Resources should be allocated based on priorities, levels of service, and standards of performance as identified in the strategic plan. On an annual basis, performance measures should be compiled, summarized and published, and made available to the Board, the Legislature and the public.

F3.25 The OBM prepares guidelines for the OTTA's biennial budget request. These guidelines specify the Authority's authorized biennium CBLs. The CBLs approved by the OBM are based on general budget increases permitted of all state agencies, not on the specific, stated needs of the OTTA. The Authority has used the maximum cap for its budget request in biennium budget years 1997-1999 and 1999-2001. Amounts in excess of the CBL are recorded as supplemental amounts and must be approved by the OBM before submission to the legislature. OTTA has requested a supplemental for each budget year in each of the past

two biennium budget periods. Although the OTTA is self-funded, the Authority participates in the state appropriations process. Core budget requests and supplemental requests are shown in **Table 3-8**.

Table 3-8: OTTA Biennium Budget, 1997-1999 and 1999-2001

	CBL	SUPP	Total
1997-1999 Biennium Budget			
FY 1997-98 Budget	\$2,347,603	\$767,597	\$3,115,200
FY 1997-98 Actual Expenditures			\$2,658,228
FY 1998-99 Budget	\$2,410,344	\$1,131,056	\$3,541,400
FY 1998-99- Actual Expenditures			\$2,959,701
1999-2001 Biennium Budget			
FY 1999-2000 Budget	\$3,736,833	\$158,707	\$3,895,540
FY 2000-01 Budget	\$3,837,164	\$331,064	\$4,168,228

Source: OTTA Fiscal Years 1997-1999 and 1999-2001 Biennial Budget

F3.26 As shown in the table above, the Authority made supplemental requests above the CBL for each year in the past two biennium budget periods. Requested amounts, which include supplementals, exceeded the core budget levels by 4 to 47 percent. In contrast, the Authority did not spend the entire appropriation in FYs 1997-98 and 1998-99.

The OTTA requested \$3,115,200 in FY 1997-98 but only spent a total of \$2,658,228, a difference of \$456,972 or 14.7 percent. In FY 1998-99, the Authority requested \$3,541,400 but only spent a total of \$2,959,701, a difference of \$581,699 or 16.4 percent. The budget request for FY 1999-00 was 31.6 percent higher than the prior year's actual expenditures. The OTTA actual expenditures for FY 1999-00 were \$3,741,335 of which the agency spent all but 3.7 percent.

F3.27 Excessive supplemental requests in relation to CBLs for the 1999-2001 biennium budget, coupled with large percentage increases in budgeted expenditures, prompted the request for this performance audit from the Legislature. The OTTA's budget has historically exceeded actual expenditures. Based on the large differences between the budget requests, including supplementals, and the Authority's actual expenditures, the OTTA may not require all funds appropriated during the current biennium.

R3.8 The OTTA should base budgetary requests on the prior year's actual expenditures and projected needs. While the OTTA may use legitimate expenditures as the basis for current budgets, the Authority should base its budget on specifically defined needs and projected

operations. Also, the OTTA should demonstrate the need for amounts that exceed the Authority's average annual increase in expenditures. All supplemental amounts required for Authority operations should be fully disclosed in planning documents and in the budget request. During the budget approval process, the Authority should provide an explanation to the Legislature for any large increases in budgeted expenditures and show anticipated Authority performance based on the increased outlays. By disclosing the reasons for supplemental requests and demonstrating planned allocation of funds, the Authority may avoid future criticism of cost increases.

During future biennium periods, the Authority should consider budgeted expenditures in relation to OTTA revenues generated by fees and interest earned in the Reserve Fund (**see also F3.38**). Also, the Legislature should approve CBLs which meet the stated needs of the Authority and are based on prior expenditures and anticipated program operation increases. In the future, the OTTA may require additional large increases to fund support services for the rapidly growing number of clients served by the Authority.

Administration Department Operations

F3.28 The OTTA is operated as an enterprise fund and is intended to generate sufficient revenue to fund operations. The Authority is also mandated to provide an affordable means to pay for higher education and, therefore, does not have the ability to raise unlimited funds through fees. As discussed in **F3.21**, the Authority does not currently plan Authority wide expenditures on a long-term basis or link planned expenditures to revenues generated by fees or earned interest.

R3.9 To ensure the most efficient operation of the Authority, OTTA should more strongly link its anticipated operational receipts (account administration component of tuition unit price) to operational expenditures. Linking receipts to expenses will aid the Authority in determining the effect of program costs and operating revenue on the Reserve and Operating Funds. Through monitoring receipts, the OTTA may be able to better determine necessary client fees and to increase the affordable nature of the program (**see also R3.10, R3.11 and R3.12**).

F3.29 The OTTA Board adopted a *Statement of Investment Objectives, Responsibilities and Policies* at its meeting on October 1, 1998. The policy was revised on January 28, 1999. The long-term objectives of the policy are to:

- Obtain an investment return sufficient to allow assets to meet statutory and contractual obligations of the Authority and its programs
- Defray reasonable expenses of administering program operations

- Obtain the highest possible total return with prudent levels of risk

To achieve these objectives, the Board has adopted the following principles to guide the investment policy of the Authority:

- Asset allocation ranges maintained through a disciplined re-balancing program
- Diversification by asset class and within asset class
- Investment with a long-term perspective
- Acceptance of passive alternative (index funds) as a suitable investment strategy to actively managed funds.

F3.30 Based on the OTTA's target asset allocation plan, the total expected long-term return before inflation and fees is 9.0 percent. In FY 1998-99, the actual annual earnings were 11.4 percent. Tuition costs are projected at a six percent annual increase. Assets are balanced within prescribed asset class ranges on a semiannual basis using market valuations as of March 31st and September 30th valuation dates. The Board reviews the asset allocation plan at least annually, and an external asset/liability review is conducted at least once every three years. The Board Finance and Investment Subcommittee periodically hires an outside investment consultant to review and comment on the Authority's investment policies.

F3.31 Monthly investment reports are provided to the Authority by PERS, the Authority's investment agent, and are reconciled to the Authority's accounting system. Reports are also forwarded to all members of the Finance and Investment Subcommittee, with quarterly investment reports provided to the entire Board. The PERS investment officer meets with the Finance and Investment Subcommittee quarterly to review investment performance.

C3.8 The Authority's comprehensive investment policy and accompanying goals and performance benchmarks ensure that the Trust Fund is continually monitored and regularly evaluated. Performance benchmarks help the OTTA's Board appraise the performance of the fund in relation to the overall market and gauge the adequacy of tuition unit pricing in relation to university tuition inflation. The number of steps implemented by the Authority to ensure liquidity provides a strong investment management policy to guide Authority investment decisions.

F3.32 Most prepaid tuition programs fund their administration, customer service, and marketing costs through fees associated with enrollment in the program and annual client account maintenance. In some cases, the authorities are able to fund administration expenses through

the interest generated by investments or through the appropriations of a parent department or agency. **Table 3-9** shows the adopted fee schedules for Ohio, Michigan, Pennsylvania and Texas.

Table 3-9: Client Charges

	Ohio	Michigan	Pennsylvania	Texas
Basic Fees				
Enrollment Fee	\$10.00 to \$50.00	\$25.00	\$50.00	\$50.00
Contract Processing Fee	N/A	\$60.00	\$0.00	N/A
Tuition Unit Processing Fee	\$5.00	N/A	\$0.00	N/A
Annual Fee to Process Monthly Installments	N/A	\$25.00	\$0.00	\$3 monthly or \$20 annually
Penalty Fees				
Late Payment Fee	\$25.00	\$10.00	\$0.00	\$10.00
Returned Check Fee	\$25.00	\$10.00	\$20.00	\$20.00
Transfer Fee	\$25.00	\$25.00	\$10.00	\$50.00
Termination Fee	\$25 plus 10% of earnings ¹	\$200.00	\$10.00	\$25.00
Special Request Processing Fee	\$50.00	N/A	\$10.00	N/A

Source: OTTA and peer agency fee schedules

¹The 10 percent of earnings charge is a de minimus penalty required by the Internal Revenue Service.

F3.33 The OTTA collects an enrollment fee (\$10 to \$50) and approximately \$5 on every tuition unit to defray the administrative costs of the program. The amount of the enrollment and unit administrative fees for the OTTA prepaid tuition program are determined by the Board. According to OTTA management, the unit fee and enrollment fee were set arbitrarily by the Board in 1995 and have not been updated since that time. Although the actuarial study recommends administrative fee levels, these are not comparable to the current administrative fee structure. As shown in **Table 3-9**, the OTTA and peers charge similar fees. OTTA management stated that the \$5 fee has several components which include paying for operational expenditures and building future reserves.

F3.34 OTTA offers a variety of incentives which reduce the enrollment fee. Through enrollment incentives and discounts, the enrollment fee may be reduced to:

- \$25 if the enrollee is less than one year of age
- \$40 if the enrollee participates in the Customer Referral Program. The referral member also receives a \$10 credit to his/her account.

- \$40 if the sponsor is a Golden Buckeye card holder

R3.10 The Board should examine the high cost of the standard enrollment fee currently used by the Authority. Ohio's enrollment fee is comparable to Texas and Pennsylvania, but the Authority often reduces the fee for special incentive programs. If the Authority is able to offer a reduced fee without compromising the administrative fees posted to the Reserve Fund, the Board should consider developing a policy to extend the reduced enrollment fee cost savings to all OTTA clients on a regular basis.

F3.35 The OTTA's \$25.00 termination fee is the second highest of the peer agencies. The termination fee is charged if a client closes his/her account and requires repayment of tuition unit purchases. In cases of the death or disability of a client, the termination fee is not charged. The fee is intended to discourage clients from withdrawing their funds from the program.

R3.11 The Board should consider the merits of the termination fee in relation to overall OTTA policies and program accessibility to all Ohioans. A recent publication (see **F5.22 and F5.23 in the marketing section**) cites the OTTA's restrictive withdrawal policy as a drawback of investing in the program. If the Board is unable to find a justification for the termination fee, the Board should consider a policy decision eliminating the termination fee to make the program more user friendly.

F3.36 Authority program operations are supported entirely by the account administration component of tuition unit price, interest generated by the Reserve Fund and fees including: the enrollment fee, tuition unit fee, the other fees outlined in **Table 3-9**. During FY 1998-99, the OTTA transferred \$3,255,000 from the Reserve Fund to the Operating Fund to offset net GAAP basis expenditures of \$3,080,160.

F3.37 In FY 1998-99, the Reserve Fund had accrued a total retained earnings of approximately \$34.6 million, a growth of \$6.0 million over FY 1997-98. The large unrestricted fund balance of the Reserve Fund is the result of the Authority's annual operating revenue and interest in the Reserve Fund exceeding transfers to the Operating Fund for program operations.

F3.38 During FY 1998-99, the Authority generated \$6.2 million in unit sales fees and \$192,550 in contract fees. Investment income represented \$2.9 million in Reserve Fund revenue. Overall, the Reserve Fund earned a total of \$9.2 million during FY 1998-99. The current account administration portion of the tuition unit price and OTTA fees are above actuarially estimated account administration costs. In addition, the Reserve Fund has the ability to generate interest revenue amounting to approximately 98 percent of current operating costs. Based on current costs, the OTTA may have the potential to reduce the account administration component of

the tuition unit price and OTTA fees through economies of scale or the use of interest earned on past fees residing in the Reserve Fund.

- F3.39 Expenses for account administration (account maintenance and payout) are detailed as a component of the actuarial assumptions provided in the OTTA's annual actuarial valuation. The 1999 actuarial study estimates program shut down cost would include: annual maintenance fees of \$5.67 per client account and annual distribution costs of \$14.50 per client account in payment status. These rates are approximately \$0.50 higher than those rates assumed in the 1998 actuarial valuation.
- F3.40 The Ohio Tuition Trust is backed by the full faith and credit of the state of Ohio. Actuarial valuations, prepared by Milliman & Robertson, Inc., attest to the financial soundness of the fund. During the last actuarial study, a 26 percent surplus in the Trust Fund was identified. The surplus provides the Authority with a measure of security in the event of a decline in future interest earnings.

As of June 30, 1998, the OTTA Trust had a surplus of \$59.1 million with \$319.4 million in assets and \$260.3 million in tuition and expense obligations. During the FY 1998-99, the surplus increased to \$82.2 million or 26 percent of obligations. The surplus is determined by comparing the actuarial value of current assets and the present value of future obligations. This increase in the surplus was primarily attributable to a favorable investment experience during FYs 1997-98 and 1998-99. Surplus in the amount of \$0.3 million was generated by the administrative fee portion of the tuition units and \$2.6 million of the surplus was gained through a lower inflation rate in tuition (5.1 percent as opposed to the projected 6.0 percent). Actuarial findings suggest that the OTTA should develop a written policy to establish what constitutes an adequate reserve cushion for future Trust Fund payments and how funds in excess of this amount will be addressed.

- R3.12** As the Authority does not have a policy to determine an appropriate surplus of the Trust Fund, the Board should consider developing and adopting a policy to address the definition of an appropriate surplus amount in the Trust Fund in relation to future obligations. Policy considerations should be aligned with the Authority's strategic plan and *Strategic Vision for 2005*. The policy should consider not only the definition of an adequate surplus but also the manner in which the Authority might fairly distribute the surplus if it exceeds targeted amounts.

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Operations

Performance Measures

The following is a list of performance measures that were used to conduct the review of the Operations Department of the OTTA:

- Analyze OTTA Operations Department costs
- Assess the staffing level and mix, including the utilization of temporary or seasonal employees
- Assess OTTA customer service data and functions
- Assess the efficiency and effectiveness of customer interaction functions and customer data processing functions
- Assess efficiency and effectiveness of payout functions
- Analyze the use of technology in the Operations Department as a means of increasing efficiency
- Review contracted and in-house services

Findings / Commendations / Recommendations

Operational Expenses and Peer Comparison Data

F4.1 The OTTA Operations Department functions and costs encompass customer service, data entry and records management, and tuition payout activities. The Operations Department includes the director of operations, who manages the day-to-day activities of the department; the customer service supervisor and team leaders, who are responsible for providing oversight and assistance for the customer information hotline; the customer service representatives, who are responsible for answering client queries and resolving client complaints; the customer service coordinators, who are responsible for the data entry of client information and payments; the imaging coordinator, who scans all client records; and the payout coordinators who are responsible for processing tuition payouts and refunds. **Table 4-1** shows actual expenditures by category for the Operations Department over the last three fiscal years and the percent change in expenditures.

Table 4-1: OTTA Operations Expenditures by Category, Three Year History

	FY 1996-97	FY 1997-98	Percent Change	FY 1998-99	Percent Change
Operations Department					
Salaries and Benefits	\$198,724	\$280,098	40.95%	\$386,239	37.89%
Client Retention (Including IVR & Mail)	\$15,055	\$184,909	1,128.22%	\$123,344	(33.29)%
Data Entry and Records Management	\$22,514	\$43,427	92.89%	\$49,230	13.36%
Tuition Payouts & Refunds	\$1,469	\$3,283	123.49%	\$2,474	(24.64)%
Operations Department Total	\$237,762	\$511,717	115.22%	\$561,287	9.69%

Source: OTTA Records

F4.2 OTTA Operations Department costs increased by 115.22 percent over the two year period from FY 1996-97 to FY 1997-98. Several technology additions were purchased in FY 1997-98, including the Interactive Voice Response (IVR) touch tone phone system to aid in client retention and general customer service, and an imaging system to heighten records management efficiency. Additional employees also contributed to the cost increase. During FY 1998-99, Operations Department costs increased 9.69 percent from the prior year. The overall cost increase between FY 1996-97 and FY 1998-99 was approximately 136.07 percent.

F4.3 **Table 4-2** below provides general cost comparison data for the Operations functions of the OTTA and the peer programs.

Table 4-2: 1999 Operations Peer Comparison Data

	Ohio	Michigan	Pennsylvania	Texas	Peer Average
Total Operations Actual Expenses	\$561,287	\$248,100	\$1,119,184	\$1,364,928	\$823,375
Total Active Client Accounts	74,024	58,749	28,895	75,804	59,368
Total Operations Cost Per Active Client Account	\$7.58	\$4.22	\$38.73	\$18.01	\$17.14
Agency Affiliation	Independent: OTTA	Department of Treasury	Department of Treasury	Comptroller	N/A

Source: OTTA and peer authority records and interviews

According to **Table 4-2**, the OTTA Operations Department's cost per active client account of \$7.58 is the second lowest of the peers and approximately 55.8 percent the cost of the peer average of \$17.14. OTTA total Operations costs are also the second lowest of the peers and substantially lower than Pennsylvania and Texas. The lower costs are attributed to the level of technology used by the OTTA Operations Department and the number of services maintained in-house (See **F3.15, C3.4, F4.8 and F4.9**). Texas outsources both customer service and records management functions.

F4.4 The Operations expenses for OTTA and the peer authorities can be examined through the three major functions of the department: customer service, account maintenance and payout processing. **Table 4-3** below provides an analysis of costs per major function for OTTA and the peer authorities.

Table 4-3: 1999 Operations Costs by Function

Expense Category	Ohio	Michigan	Pennsylvania	Texas	Peer Average
Customer Service	\$337,789	\$118,600	\$522,285	\$115,928	\$273,651
Account Maintenance	\$118,395	\$56,500	\$373,061	\$1,159,659	\$426,904
Payouts & Refunds	\$105,103	\$73,000	\$223,838	\$89,341	\$122,821
Total	\$561,287	\$248,100	\$1,119,184	\$1,364,928	\$823,375

Source: OTTA and peer authority records and interviews

F4.5 As indicated in **Table 4-3**, Ohio's total customer service costs are the second highest of the peers, as are total payout costs. OTTA total account maintenance costs are the second lowest of the peers and approximately 72.3 percent less than the peer average. **Table 4-4** shows customer service and account maintenance cost per active client and payout cost per mature, active account.

Table 4-4: Operations Cost per Client by Function

	Ohio	Michigan	Pennsylvania	Texas	Peer Average
Customer Service Cost per Active Client Account	\$4.56	\$2.02	\$18.08	\$1.53	\$6.55
Account Maintenance Cost per Active Client Account	\$1.60	\$0.96	\$12.91	\$15.30	\$7.69
Payout Cost per Active Client Account	\$1.42	\$1.24	\$7.75	\$1.18	\$2.90
Total Operations Cost per Active Client Account	\$7.58	\$4.22	\$38.74	\$18.01	\$17.14

Source: OTTA and peer records

F4.6 When examined by function on a per client basis, the customer service costs for Ohio on a per active client account basis are the second highest of the peers, but below the peer average by approximately 30.4 percent. If Pennsylvania's high customer service cost of \$18.08 is removed from the average, Ohio's customer service cost is well above the peer average of \$2.70. Higher customer service costs are reflective of the Authority's philosophy of personalized customer service. Account maintenance costs are the second lowest and approximately seven times less than the peer average. The cost effectiveness of the in-house account maintenance function is apparent when data entry and records management costs are compared on a per client basis. Only Michigan has a lower account maintenance cost per client due to the use of Michigan Department of the Treasury record management services. Finally, the total payout cost for Ohio is the second highest of the peers. Yet, Ohio's payout cost per account is approximately one-half of the peer average and over 5 times less than Pennsylvania's cost per account.

C4.1 The OTTA Operations Department appears to provide comparable services at a relatively lower cost when compared to the peer group. The Authority has the second lowest Operations Department cost per client and, on a total cost basis, the OTTA has the second lowest expenditures of the peers and ranks well below the peer average (see also F4.3). The Operations Department continually makes improvements in the level of customer service, the availability of information to clients and potential clients, and the standardization of service.

Staffing

F4.7 The Operations Department staff consists of 14 employees who are responsible for customer service functions such as addressing program participant inquiries, resolving customer service problems, entering account data and processing payment of tuition units. The Operations Department also mails materials to new and current clients and contracts with outside vendors for various services such as printing. Operations Department employees are responsible for document imaging and retention, record-keeping, phone systems maintenance and financial

transaction processing. As indicated in **Table 4-2**, OTTA is the only authority within the peer group that is organized as an independent agency. The peer authorities realize substantial service support from private vendors or other government agencies that are not necessarily reflected in their financial statements. The full-time equivalent employee (FTE) costs of these support services would be a primary cost driver for the peer authorities, if they were organized as independent agencies.

- F4.8 The Texas program outsources a significant portion of their customer service operations while Pennsylvania and Texas programs receive significant internal financial and administrative support from other state agencies. **Table 4-5** below indicates the staffing distribution across the peer authorities, including outsourced positions residing in other government agencies or private contractors.

Table 4-5: Peer Agency Operations Staffing Levels (in FTEs)¹

	Ohio	Michigan	Pennsylvania	Texas	Peer Average
Director, Operations	1.00	0.00	0.00	1.00	0.50
Telephone Operations/ Receptionists (Customer Service)	4.00	4.00	5.00	0.00	3.30
Administrative Assistant /Receptionist	2.00	0.00	1.00	1.50	1.10
Outsourced Telephone Operations	0.00	0.00	0.00	7.00	1.75
Account Maintenance (Customer Service, Imaging)	4.00	0.00	2.00	0.00	1.50
Outsourced Account Maintenance	0.00	1.00	2.00	2.00	1.25
Payouts (Payout Coordinator)	2.00	2.00	1.00	0.00	1.25
Outsourced Payouts	0.00	0.00	2.00	2.00	1.00
Other	1.00	0.00	0.00	0.00	0.25
Outsourced Other	0.00	4.00	2.00	2.00	2.00
Total	14.00	11.00	15.00	15.50	13.90

Source: OTTA and peer authority records and interviews

¹ FTE figures above are presented show in-house, outsourced and interagency FTEs.

- F4.9 The OTTA Operations Department maintains a staffing level of 14.0 FTEs, which is slightly above the peer average of 13.9 FTEs. One apparent difference in staffing allocations between OTTA and the peer authorities is the establishment of a full-time director of operations. OTTA management indicated that a full-time director position is advantageous to the organization because this position plays a key role in private contractor services management, special projects development and overall work flow management.

Pennsylvania and Texas both outsource several positions in account maintenance and payouts. Texas also outsources a significant portion of telephone operations. Ohio, in contrast, performs all of these functions in-house. The moderate FTE levels for the Authority are facilitated through in-house operations which rely on employee skill and the use of technology to perform functions comparable to the peers. Lower costs are also facilitated through in-house operations as OTTA wages are lower than the estimated outsourced FTE salaries.

F4.10 **Table 4-6** below describes the general duties of each of the OTTA Operations Department employees.

Table 4-6: Position Descriptions for OTTA Operations Department

Operations Position	Description of Duties
Director of Operations	<ul style="list-style-type: none"> • Manages operations of account processing, records management and phone systems • Develops policies and procedures for customer service, account processing and payouts • Monitors efficiency and accountability standards and prepares various operational reports, studies and forecasts • Manages vendor contracts for lockbox and records storage functions • Ensures timely and accurate processing of new accounts, tuition purchases, lockbox receipts, welcome kits, client statements, 1099s and other documents as necessary • Develops standards for service quality and manages operations budget
Receptionist	<ul style="list-style-type: none"> • Handles excess call volume and customer questions • Provides clerical support to director of operations • Assists in special projects as assigned • Performs reception area functions
Customer Service Supervisor	<ul style="list-style-type: none"> • Monitors the Customer Service Hotline to ensure timely call responses • Audits calls to ensure accuracy of information and compliance with guidelines • Maintains and audits client complaint log • Supervises daily activity of staff and identifies training needs • Works with IT department to prepare timely account statements and manages special projects • Evaluates and trains employees
Customer Service Representative Team Leader	<ul style="list-style-type: none"> • Provides oversight and assistance for the Customer Information Hotline • Resolves various complaints and fulfills information requests • Maintains client service information such as call reports • Provides back up to agency receptionist and performs other various administrative functions • Assists in the development of training and reference materials, and trains staff • Assists in difficult customer complaints
Customer Service Representative	<ul style="list-style-type: none"> • Resolves problems and complaints and fulfill requests for information • Maintains various customer service information and program participant files • Provides various administrative support activities • Performs various data entry tasks and verify accuracy of transactions
Customer Service Coordinator Team Leader	<ul style="list-style-type: none"> • Performs data entry functions and downloads tuition purchase data file from bank • Reconciles data entry batch totals, completes deposit slips and develops training and reference materials • Prepares documents for filing and provides customer service as needed • Specializes in difficult client complaints
Customer Service Coordinator	<ul style="list-style-type: none"> • Enters contract and personal information into OTTA data systems, download files and proofread data • Completes and verify various financial transactions • Maintains program files and provide customer service support as needed
Imaging Coordinator	<ul style="list-style-type: none"> • Performs all imaging and indexing functions, scans and indexes all documents • Primary backup for agency receptionist and performs administrative support tasks as necessary • Provides backup support to customer service
Payout Coordinators	<ul style="list-style-type: none"> • Performs payout functions such as check requests, availability of units and refunds • Tracks payout statistics and interact with university bursars • Plans various mailings and interacts with other OTTA staff on payout procedures • Performs other administrative support duties as needed

Source: OTTA position descriptions

According to interviews with the human resources coordinator and Operations Department employees, job descriptions are an accurate reflection of the day-to-day duties of employees.

Of the fourteen OTTA Operations Department employees, the director, customer service supervisor and two customer service team leaders comprise the four supervisory positions. The director, customer service supervisor and one of the two team leaders were hired in 1999. The other team leader has been employed with the Authority since 1995. All supervisors and team leaders also perform customer service and account maintenance functions in addition to their supervisory roles. According to the human resources coordinator, the lack of Authority experience in the customer service area is due to a highly competitive job market for customer service representatives and limited room for professional growth. Furthermore, the workflow for customer service representatives can be erratic, leading to situations in which employees are either overtaxed or insufficiently challenged.

F4.11 **Table 4-7** indicates the number of in-house and outsourced FTEs, the salary and benefits costs, and the location of workers for the Operations Department of OTTA and the peer authorities. Estimates of outsourced FTEs were obtained through position analysis and interviews with the peer authorities.

Table 4-7: Operations Staffing Analysis

	Ohio	Michigan	Pennsylvania	Texas	Peer Average
Total In-House FTEs	14.00	6.00	9.00	2.50	7.90
Total Outsourced FTEs ¹	0.00	5.00	6.00	13.00	6.00
Total FTEs	14.00	11.00	15.00	15.50	13.88
Total In-House Salaries	\$266,991	\$162,930	\$244,395	\$61,423	\$183,935
Total Outsourced Salaries ²	\$52,500	\$135,775	\$162,930	\$319,397	\$167,651
Total FTE Salary Costs ³	\$319,491	\$298,705	\$407,325	\$380,820	\$351,585
Total FTE Benefits Costs	\$66,748	\$89,612	\$122,198	\$114,246	\$98,201
Total Salary/Benefits Costs	\$386,239	\$388,317	\$529,523	\$495,066	\$449,786
In-house or Outsource	In-House	In-House/ Department of Treasury	In-House/ Department of Treasury	Private Contractor	N/A

Source: OTTA and peer authority records and interviews

¹ Outsourced and interagency FTEs represent peer estimates of staffing levels.

² Outsourced salaries and benefits are included in peer financial statements as a component of contracted services costs. Ohio's outsourced salaries are attributed to four temporary employees hired for the enrollment campaign period during FY 1998-99 (see **F4.15**).

³ Outsourced and interagency employee costs are calculated based on an average cost of \$24,569 per employee for Texas and \$27,155 for Michigan and Pennsylvania.

- F4.12 As shown above, the OTTA has the second lowest number of total Operations FTEs when compared to the peers (see F4.15). Michigan employs a lower number of FTEs, but total salary and benefit costs exceed those of the OTTA. The Authority has the lowest total salary and benefits cost for operations functions which is 14.1 percent lower than the peer average. The Authority appears to effectively allocate human resources within the Operations Department at a lower cost than the peers. The use of technology, as explained in F3.15 and F4.24 through F4.26, allows the Authority to keep FTE cost levels low in comparison to the peer authorities.
- F4.13 OTTA employees are compensated in the same manner as unclassified state employees (see F3.8). According to recent salary schedules, the annual salary and benefits costs incurred by the 14 employees in the Operations Department would be approximately \$333,739 (see also F4.15) for an average per employee cost of \$23,838. Employee benefits include an employer contribution to the Public Employee Retirement System (PERS) on behalf of each employee that is approximately 13 percent of the employee's annual salary and insurance coverages such as health, dental, vision, disability and life. OTTA benefits constitute approximately 25 percent of salaries.
- F4.14 As discussed in F3.9, the OTTA contracted with a private sector consultant to conduct a salary study in order to determine how OTTA positions compare with similar positions in the public and private sectors. The study focused on salary ranges and incumbents' placement within those ranges. Using private sector salary surveys for 1999 and updated state of Ohio civil service salary step system ranges, comparable job descriptions from the public and private sectors were identified and analyzed for comparability of salary ranges. Summarized results by position are as follows:

Table 4-8: Wage and Salary Analysis, OTTA Operations

Position	Private Sector	Public Sector
Operations Director	Comparable	High
Customer Service Supervisor	Inconclusive	Inconclusive
Customer Service Team Leader	Inconclusive	Low
Customer Service Coordinator	High	Mixed
Customer Service Representative Team Leader	Comparable	Low
Customer Service Representative	High	Low
Payout Coordinator	Comparable	Low
Imaging Coordinator	Comparable	Comparable
Receptionist ¹	High	High

Source: Reigle Salary Study

¹ The consultant felt that while the receptionist's salary was comparatively high, additional duties justified the cost.

In general, the study found OTTA salary ranges to be consistent with comparable positions in the public and private sectors. However, entry-level position salary ranges were low in comparison to the public sector, which could subject OTTA to a competitive disadvantage in recruiting for positions such as customer service representative (see **F3.10 and R3.1**).

F4.15 While the Operations Department currently has 14 FTEs, seasonal fluctuations in part-time staffing effect the staffing level. Four temporary employees were hired for the period of October through February to assist with increased volume of phone calls and data entry tasks associated with the campaign period. The only recent position added to the Operations Department was a second payout coordinator position. This position facilitates the growing payout volume that coincides with the aging of the OTTA program. According to interviews with the director of operations, the temporary employee costs are roughly split between the Operations and Marketing departments on a 75/25 percent basis, respectively. According to department estimates, the Operations Department share of temporary employee costs for FY 1998-99 was approximately \$52,500 which is included in departmental salary and benefits costs (see **Table 4-7**).

C4.2 The OTTA Operations Department staff fill a valuable role that is outsourced at a greater expense in the other agencies examined. The Operations Department, when compared to the peers, appears to be effectively staffed based on current duties. Through retaining operations functions in-house, the OTTA has maintained a lower cost and FTE level than the peer average.

F4.16 Cross-training was cited by OTTA management as a high priority in the Operations Department to improve employees' skill levels and reduce fatigue associated with the redundant nature of operations tasks. Current training focuses primarily on preparing for interaction with clients or potential clients. For example, receptionists and customer service representatives must complete an internal customer service training program and have knowledge of the operations manual and the Frequently Asked Questions (FAQ) document prior to answering phone calls from clients. The director indicated that the agency is also attempting to establish an environment in which each employee understands the duties and responsibilities of the other employees.

R4.1 The OTTA should develop a formal cross-training plan and schedule to reflect the cross-training goals of the agency. While cross-training was mentioned as a high priority during interviews with the director, no formal cross-training planning documents have yet been developed. Costs associated with cross-training programs should be included in the Authority's strategic plan and, in the future, employees in the Operations Department should be evaluated on the range of skills developed through the cross training program. By including professional development and cross-training in the evaluation process, the director may enhance staff attention to standardization of services.

Customer Service, Account Maintenance and Payout Processing

F4.17 **Table 4-9** details customer service and account maintenance data for OTTA and the peer authorities.

Table 4-9: Customer Service and Account Maintenance

	Ohio	Michigan	Pennsylvania	Texas	Peer Average
Customer Service and Account Maintenance FTEs	9.00	5.00	9.00	9.00	8.00
FY 1998-99 Client Accounts	74,024	58,749	28,895	75,804	59,368
Active Client Accounts per FTE	8,225	11,750	3,211	8,423	7,902
Customer Service FTEs	6.0	4.0	5.0	7.0	5.5
Avg. Monthly Call Volume	3,402	N/A ¹	N/A ¹	5,799	4,601
Calls per FTE	567	N/A ¹	N/A ¹	828	698
Account Maintenance FTEs	4.0	1.0	4.0	2.0	2.8
Accounts Maintained per FTE	18,506	58,749	7,224	37,902	30,595

Source: OTTA and peer authority records and interviews

¹ Michigan and Pennsylvania do not record this data.

As indicated in **Table 4-9**, OTTA employs slightly above the peer average total number of customer service and account maintenance FTEs, and maintains a higher number of active client accounts per FTE when compared to the peer average. The Authority also maintains the second highest number of customer service FTEs and answers the second highest number of calls. In the area of account maintenance, the OTTA appears to maintain the second lowest number of accounts per FTE, but Michigan and Texas both use some form of outsourced record keeping services. The Authority's custom designed account maintenance software facilitates greater efficiency in-house at lower costs as the technology is specifically geared toward the needs of the Operations personnel. Document imaging and other technological enhancements also streamline customer service and account maintenance functions by providing immediate access to all customer forms, account information, and payment histories.

C4.3 The OTTA customer service and account maintenance functions appear to generate low operating costs in comparison to the peers. In addition, staffing levels appear appropriate and efficient based on the current workload and peer comparisons. OTTA maintains a high number of all client accounts per total customer service and account maintenance FTE. Low customer service and account maintenance costs are facilitated through the use of technology (see **F3.12**, **F3.15**, **C3.4**).

F4.18 **Table 4-10** below details payout processing data for OTTA and the peer authorities.

Table 4-10: 1999 Payout Processing Costs

	Ohio	Michigan	Pennsylvania	Texas	Peer Average
Payout FTEs	2.00	2.00	3.00	2.00	2.25
FY 1998-99 Payouts	3,450	10,029	1,506	5,000	4,996
Payouts per FTE	1,725	5,015	502	2,500	2,435
Cost Per Payout	\$30.46	\$7.28	\$148.63	\$17.87	\$51.06
Program Establishment	1990	1989	1992	1996	1992

Source: OTTA and peer authority records and interviews

As indicated in **Table 4-10**, OTTA maintains a cost per payout which is the second highest of the peers, but well below the peer average. If Pennsylvania's high payout cost of \$148.63 is removed from the peer average, Ohio cost is approximately 64.3 percent above the peer average of \$18.54. Multiple mailings and interactions between the OTTA, clients, and universities which are necessary to complete the payout process contribute to the higher payout costs.

F4.19 The OTTA payout process takes place over several months. **Table 4-11** shows the steps in the payout process.

Table 4-11: Time Line of Primary Actions in the Payout Process

Time Frame	Primary Actions in the Payout Process
Mid-March	A letter is sent to purchasers and beneficiaries to let them know of the upcoming payout process, to confirm that the student's information as recorded by the OTTA is correct and that the student still intends to use their tuition units to attend college the following academic year.
Mid-May	A Prepaid Tuition Use (PTU) form is sent to the purchaser. The purchaser and beneficiary complete the form by indicating the tuition due date, the amount requested for tuition, fees, room and board and other information regarding the desired timing of account usage.
30 days prior to the bill due date of selected college.	The PTU form must be signed by both the purchaser and the beneficiary and returned to OTTA for processing.
Late August	The weighted average tuition (WAT) is established for the upcoming academic year.
By January 31st	For the purposes of providing relevant federal income tax information, the OTTA will mail a Form 1099-G to anyone who has received distributions from a prepaid tuition account for educational expenses or has received a refund during the previous calendar year.

Source: OTTA records and interviews

The director indicated that the payout process is the OTTA's primary customer service problem. The process is confusing to many clients as a result of the multiple steps in the process. In order to assist clients in understanding the payout processes, a payout brochure

is included with the mailing of Prepaid Tuition Use (PTU) forms. This brochure gives an overview of the client's responsibilities in completing the form, deadlines for submission, a description of qualified expenses and payment method instructions for in-state or out-of-state colleges. The brochure also provides line-by-line instructions for completing the form and several answers to commonly-asked questions.

C4.4 The Operations Department provides clients with a detailed and easy-to-read brochure to assist them with the payout process. The brochure reduces the amount of client confusion surrounding the payout process and is presented in a manner which is easy to understand. Furthermore, the PTU form has recently been updated to include a "due date" line for payments to further clarify the need for timely return of completed forms.

R4.2 OTTA should clarify the payout process as much as possible, extend the time line and reduce the number of steps in the process. This would promote a higher level of customer service and client satisfaction with the program. Information on the payout process should be highlighted on the Authority's Web site and included as a choice on the IVR system. In addition, the Authority should consider the following options:

- Field representatives could schedule personal appointments or small group meetings with parents of graduating seniors to help guide them through the payout process.
- Telephone operators could be used to make follow up calls to answer parent questions and facilitate submission of the PTU form.
- Parents could be allowed to complete the PTU form on-line or via FAX.
- The OTTA could contact peer authorities to determine how the payout process is handled in other states

As the Authority considers the payout process to be the primary customer service issue facing the OTTA, all efforts should be made to streamline the process for clients.

F4.20 Upon receipt of a properly completed PTU form, the Operations Department oversees the following major steps:

- The Operations Department processes individual payment requests through the clients' respective universities. This is done in a roster format which includes the student's name, social security number and reported amount owed for tuition, fees, room and board. The roster represents a promise of payment by OTTA to the university for the amounts listed per student.

- The bursar's office for each university checks off the payment amount and makes notations as necessary about any changes in fee amounts owed by students. These edited statements are returned to OTTA.
- The Operations Department uses the edits to update account information for each client.
- The university issues an invoice to the OTTA for the cumulative amount of the updated fees.
- This invoice is forwarded to the state Treasurer's Office for payment to the university.

The director indicated that the current roster process is necessary to complete payment as the state treasurer will not process a payment without an invoice. The roster process is an ongoing challenge as the OTTA attempts to conform to the payment processes and schedules of several in-state and out-of-state universities. The director indicated that the OTTA plans to initiate formal and regularly-scheduled discussions with university bursars to alleviate payment difficulties.

R4.3 The Operations Department should make clarification and simplification of payment processes between the universities and the OTTA a top priority. The Operations Department should consider two specific strategies in this regard. First, regularly scheduled meetings with university bursar personnel should be initiated in order to open and maintain lines of communication. Second, the operations director and the executive director of OTTA should approach the Board of Regents regarding this issue. While the Board of Regents cannot influence the payment processes for out-of-state universities, processes may be streamlined among in-state universities. When considering future technology enhancements, the OTTA should also investigate the potential of electronic payments to universities. Simplification of processes could improve customer service and client relations.

F4.21 In order to process payments from client accounts, the Operations Department must know both the universities' charges for tuition, fees, room and board, and the current value of units within each client account. For university charges, clients can contact their respective colleges, obtain fee amounts for the upcoming academic year and transfer that information to the OTTA via the PTU form. However, the value in units of any particular account is determined in part by the WAT inflationary factor which is determined by the OTTA through an annual study of all Ohio state universities. The OTTA also contacts the Board of Regents in September of each year to obtain confirmation of the estimated WAT. Although tuition information is not made available to OTTA until late July or August each year, a survey of all thirteen state universities found that the university boards set tuition and fee rates between

April and June of 2000. The university bursars office may not receive tuition and fee rate information from the university board for several days to several weeks after the decision is made. As the OTTA communicates almost exclusively with the bursars offices, the Authority must estimate the WAT to meet payment deadline dates for several schools.

The WAT amount is derived from a survey circulated by the OTTA to the bursars offices of all 13 state universities. Although the bursars offices may experience a delay in obtaining the tuition and fee rates set by the board, the university budget office has tuition and fee rate information at the time the university board votes on the issue. The OTTA has not been able to develop lines of communication between the Authority and the state university budget offices.

R4.4 The director of operations and the executive director of OTTA should approach the state universities within Ohio regarding the timing of fee and tuition rate availability. The OTTA should endeavor to establish communications through the universities' budget departments in order to receive tuition and fee rate information in a more timely manner. The OTTA should coordinate this issue with the budget office of each university so that the Authority may obtain tuition and fee information as soon as it is available. By obtaining tuition and fee rate information from the universities immediately after the rates are passed by the university boards, the OTTA could establish the WAT in July or August and minimize the duplication of processes in the payout function.

F4.22 The OTTA's determination of allowable expenditures for tuition units is governed by Section 529 of the IRS code. The director indicated that many clients are unclear on what costs are applicable because the regulations seem arbitrary. For example, books, supplies and on-campus apartment rent cannot be paid for with prepaid tuition funds. However, fraternity and sorority house fees may be paid for with prepaid tuition if billed through the university. Applicability of funds to charges is dictated by what types of expenses are billed through the university. Also, university established minimum expense guidelines for room and board expenses cannot be exceeded when using prepaid tuition units. The OTTA consults with the Ohio Attorney General's office for any clarification needed in regard to the IRS code.

R4.5 The OTTA should consider expanding the payout brochure to indicate allowable expenditures in a more easily read and understood fashion. For example, a "Yes" or "No" table with descriptions of commonly requested types of expenses could provide clients with a quick reference tool when completing their PTU form. Allowable expenditures should also be included on the Authority's Web site, possibly in a search format, and as an option in the IVR system.

Technology

F4.23 The Operations Department uses two distinct phone system technologies to receive, distribute and evaluate their clients' telephone calls. The Interactive Voice Response (IVR) system, a touch tone phone directory, distributes calls through a touch tone menu and allows clients to fulfill many common information requests and transactions without the assistance of a customer service representative. The IVR system has five initial options:

- Program Enrollment: Allows callers to request an enrollment package or be transferred to a customer service representative
- Current Client: Allows currently enrolled clients to change address information or be transferred to a customer service representative
- Payroll Deduction: Allows employers to request information regarding payroll deduction for employees that are interested in the prepaid tuition program
- Tuition Trust Partners Plan: Allows schools or other organizations to request information regarding the Tuition Partners Plan
- All Other Requests: Allows callers to either be transferred to a customer service representative or leave a voice mail message for an OTTA employee

The IVR system also allows for the generation of call analysis and call summary reports within user-specified time frames which can include information such as total calls, total duration and average calls per date, as well as other customer service related data. The system also details total occurrences for various automatic phone system events such as greetings, main menu, information orders and address verification.

R4.6 The OTTA should consider modifying the IVR system to allow a caller to revert to the main menu after proceeding through one of the primary selections. Should a caller make the wrong selection or want to use multiple selections, there is no means to back up through the system to one of the initial five choices. Other IVR options which should also be considered include:

- Last payment made and next payment due
- Customer account balance
- Allowable expenditures

- Payout process steps
- Other commonly requested information

The Authority plans to add the payment and account balance options thorough the RFP associated with the new college savings plan.

F4.24 The Call Center Management Information System (CC MIS) program tracks all customer service representative phone activity, both from the incoming lines that are transferred from the IVR system and from the outgoing standard telephone line. CC MIS tracks customer service data in half-hour increments including average talk time in seconds, number of calls on the customer service representative's outgoing telephone line and the number of abandoned calls. The system offers historical data within user-specified time frames, real-time displays of data and routing capabilities which allow calls to be transferred to specific customer service representatives based on their skill sets. The program is owned by the Ohio Department of Administrative Services; Ameritech is the contracted consultant and trainer.

Although the CC MIS data is used to monitor employee productivity, particularly any dramatic changes in incoming or outgoing calls, the effectiveness of the data in developing employee incentives is limited. The OTTA only employs four full-time operators who are tracked using the CC MIS, and the trend data provided by the CC MIS can vary widely based on the time of year (enrollment period) and difficulty of calls answered by the operators.

F4.25 In addition to telephone technology, the Operations Department uses the OTTA Web site to provide on-line customer service to clients and potential clients. The site, www.ohiocollegesavings.org, has an introductory page which offers general background information about the program. Other major features of the Web site include:

- E-mail access which allows clients to type and send questions or comments to OTTA. A customer service representative is responsible for replying to the e-mails on a regular basis.
- An extensive menu which includes program information, enrollment procedures, an event calendar, employment opportunities and tuition partners plan information
- On-line forms which allow clients to perform administrative functions on-line, such as establishing automatic cash transfers for prepaid tuition units from their bank accounts
- Report reader capabilities which allow Web site visitors to download forms and reports

- A list of related links which allow Web site visitors to obtain information about OTTA programs, federal financial aid, the Ohio Board of Regents and other college financing related topics
- A “Media Room” prompt which provides news releases and articles involving the OTTA

F4.26 The Authority’s Web site appears to be comparable to the sites offered by Texas and Pennsylvania. Texas and Pennsylvania’s Web sites also include the following options:

- Both TTF and TAP list of the names/titles of board members and employees.
- TTF incorporates a “did you know” icon along the sidebar of the Web site. Clicking on this gives the visitor various statistics and facts regarding college savings, such as the percentage of TTF participants who use payroll deduction.
- TAP includes the legislation forming the program with links to explanatory windows.
- TAP includes a list of participating universities and current tuition costs at each institution.
- TTF also includes a poster contest update. TTF participants are encouraged to send pictures of their children. Each year, different children of TTF participants are chosen to appear in the agency’s various publications.

R4.7 The OTTA should consider the addition of secure client access to account information to the Web site. Additions such as governing legislation, expanded explanations of benefits and payout processes, as well as prepaid tuition forms, should be considered in future Web site expansions as well. These items could be included in the RFP for the new college savings program. The OTTA should also consider adding links to other college funding sites, particularly those addressing state and federal student aid. Providing access to this information would be an important first step in fulfilling the Authority’s strategic vision to become a clearing house for information on higher education opportunities, savings plans and scholarships, and financial aid. Web site links would also address the strategic vision to become a “one-stop shopping” source.

F4.27 The client information received by the Operations Department is maintained within the OTTA’s Sybase database program. Once entered into the system, client data can be shared among OTTA staff and is regularly transmitted to outside vendors for various mailing productions. This eliminates redundant data entry for Operations staff and has reduced the

time required to access customer records allowing the customer service department to handle more clients on a daily basis.

C4.5 The Authority's development of specific applications to streamline the operations function has been highly successful. Each year, as indicated in the Authority's technology plan, additions are planned for operations technology, including updates to the hardware and software used by the department. The addition of electronic documents (imaged client forms) allows all Operations personnel to quickly access client information. Also, other state authorities have used portions of OTTA applications and technology to improve their own operations technology.

Contracted versus In-House Account Processing Services

F4.28 In performing a high-level analysis of privatization opportunities within the Operations Department, major functions and activities were evaluated with respect to a number of criteria important in assessing privatization opportunities. The table below details the assessment criteria and provides a description of the key issues.

Table 4-12: Operations Privatization Opportunities Assessment

Assessment Criteria	Key Issues	Customer Service	Account Maintenance	Payouts
Sufficient Volume?	Is the volume of work associated with function/activity sufficient to justify internal performance?	Yes	Yes	Yes
Prohibitive control requirements?	Are the management, oversight and control requirements associated with external performance of the functions excessive?	No	No	No
Complexity?	Is the function/activity too complex to be effectively and efficiently performed by external resources?	No	No	No
Restrictive regulatory environment?	Is the performance of the function/activity regulated?	No	No	Yes
Significant capital investment?	Are significant capital investments required in association with the internal performance of the function/activity?	No	Yes	No
Procurable services?	Are high quality, external service providers available to perform the function/activity?	Yes	Limited	Yes
Significant operating cost?	Will the potential benefits of utilizing external resources likely offset/exceed the potential costs?	No	No	No
Quality?	Is there a high probability that external performance of the function/activity would reduce quality and service levels?	Yes	Yes	Yes
Potential Privatization Opportunity		Low	Low	Low

- F4.29 It appears that only a limited number of organizations are available to provide operations services of the type required by the OTTA. The Authority's customer service function requires a broad knowledge of the program and the ability to answer a wide range of customer questions. While Texas outsources this function, all customer service calls requiring detailed explanations or account information must be rerouted to the TTF offices for additional customer service assistance. Also, the TTF's outsourced cost per call of \$2.90, may not create a cost savings for the OTTA. Because of the potential for reduced quality, it appears that the Authority's customer service function has a low potential for privatization.
- F4.30 Likewise, the account maintenance function of the Operations Department is highly reliant on continual coordination between the customer and the Authority. Only two providers are available for account maintenance functions and the cost for each is high. Because of the potential for reduced quality and higher long term costs, it appears that the Authority's account maintenance function has a low potential for privatization.
- F4.31 The payout function is highly complex and requires an in depth knowledge of federal tax regulations to determine which costs may be paid out of tuition accounts. Multiple providers are available to print checks, but only two providers provide actual payout coordination. The OTTA should consider investigating the potential to have the payout checks printed through an outside source. Checks are currently printed by the Department of Treasury, but require two to three days to process, increasing the length of time required in the payout process. Because of the complexity of the payout process and the lack of private service providers, it appears that the Authority's payout function has a low potential for privatization.
- F4.32 A future outsourcing opportunity for the OTTA is associated with the newly enacted college savings bond program. On March 8, 2000, Governor Bob Taft signed House Bill 161 into law which established the college savings program. The purpose of the program is to provide an alternative college savings investment vehicle. According to the director of operations, many operational issues regarding this program have yet to be resolved, such as transferability of deposits between accounts and access to account information. The college savings program is investor-oriented, requiring the OTTA to identify a vendor who can operate, market and carefully coordinate a large scale investment operation with the OTTA.
- R4.8** In developing the RFP for the new college savings plan, the OTTA should evaluate the impact of potential changes to the Authority caused by the addition of the college savings plan. The new program coupled with the proposed partnership between the OTTA and a private vendor, may affect staffing levels, technology needs, and other areas of operations. The Authority should carefully examine the potential impact of the new program on current operations; management should proactively examine the impact of the program on staffing and structure.

Marketing

Performance Measures

The following is a list of performance measures that were used to conduct the review of the OTTA's Marketing Department:

- Assess the staffing level and mix within the Marketing Department
- Evaluate the efficiency of the OTTA Marketing Department
- Assess the cost effectiveness of marketing methods employed by OTTA
- Assess the use of technology in marketing
- Review contracted and in-house marketing services

Findings / Commendations / Recommendations

Marketing Expenses and Peer Comparison Data

F5.1 OTTA Marketing Department expenses encompass advertising, direct mail, special promotions and events, circulation materials, public relations, special campaigns and market research costs. The Department consists of six full-time equivalents (FTEs) including the deputy director of marketing, who is responsible for the day-to-day operations of the Marketing Department; the public relations manager, who is responsible for all public relations and media events, as well as writing press releases; the publications manager, who is responsible for the development, publication and dissemination of all newsletters, brochures and other print media; the regional representatives, who provide Authority representation in the Northeast and Southwest regions of the state; and the legislative liaison, who is responsible for representing the Authority in central and southern Ohio, and within state government. **Table 5-1** shows expenditures by category for the Marketing Department.

Table 5-1: Marketing Department Actual Expenditures, Three-Year History

	FY 1996-97	FY 1997-98	Percent Change	FY 1998-99	Percent Change
Marketing Department					
Salaries and Benefits	\$235,456	\$211,618	(10.12)%	\$295,145	39.47%
Advertising	\$250,489	\$180,859	(27.80)%	\$7,637	(95.78)%
Direct and Client Mailing	\$209,358	\$219,361	4.78%	\$327,385	49.24%
Special Promotion/Event/Campaign	\$104,531	\$135,570	29.69%	\$36,441	(73.12)%
Circulation Materials	\$149,230	\$156,087	4.59%	\$182,888	17.17%
Public Relations	\$23,451	\$42,095	79.50%	\$33,037	(21.52)%
Special Campaigns	\$125,990	\$66,393	(47.30)%	\$139,528	110.15%
Market Research / Survey	\$0	\$21,318	100.00%	\$0	(100.00)%
Marketing Department Total	\$1,098,505	\$1,033,301	(5.94)%	\$1,022,061	(1.09)%

Source: OTTA Records

F5.2 The OTTA Marketing Department costs have decreased slightly during the three year period. Decreases in advertising, specifically television and radio, accounted for the majority of the decrease in total Marketing expenditures. There was a major shift in resources from FY 1997-98 to FY 1998-99 from television and radio to direct mail. This was due to the high cost of television and radio, the perceived effectiveness of less expensive direct-mail marketing methods, and the small percentage of clients who reported learning of the program via television. According to the deputy director of marketing, only seven percent of clients

reported learning of the program from television in FY 1997-98. Currently, television and radio advertising are not a marketing emphases. However, the Marketing Department plans to use these media in the future through agreements with the selected vendors for the new college savings plan program (see **F4.33, R4.8**).

F5.3 **Table 5-2** below provides general comparison data for the marketing functions of the OTTA and the peers. Ohio spends the second lowest amount on marketing but generated the greatest number of new customers in FY 1998-99.

Table 5-2: Marketing Peer Comparison Data for FY 1998-99

Marketing Benchmarks	Ohio	Michigan	Pennsylvania	Texas	Peer Average
Total Marketing Actual Expenses	\$1,022,061	\$253,675	\$2,262,800	\$1,435,688	\$1,243,556
New Client Accounts in FY 1998-99	12,595	1,513	7,500	9,676	7,821
Marketing Cost Per New Client Account	\$81.15	\$167.66	\$301.71	\$148.38	\$174.73
FY 1998-99 Sales Revenue	\$55,773,119	\$12,835,268	\$21,000,609	\$105,537,320	\$48,786,579
Revenue Generated per Dollar Marketing Expense	\$54.57	\$50.60	\$9.28	\$73.51	\$46.99

Source: Records and interviews from OTTA and the peer authorities

According to the table, only Michigan had a lower total marketing expense among the comparison group. Ohio not only had the highest number of new clients in FY 1998-99, but also generated the second highest amount in new sales revenue. More importantly, OTTA's marketing cost per new client was the lowest among the comparison group and approximately 53.6 percent less than the peer average. The Authority also had the second highest dollars generated per marketing dollar spent.

C5.1 The OTTA Marketing Department has the lowest marketing cost per new client when compared to the peers. By tailoring the OTTA's marketing campaigns to reach proven client groups, the OTTA appears to efficiently use marketing expenditures and achieves a high rate of return for each marketing dollar spent (see **F5.20 and C5.4**). Compared to the peer authorities, OTTA also generates more new client revenue at a lower cost. This is a result of well-researched and carefully-planned direct-mail marketing campaigns. Also, through avoiding costly marketing options, such as television and radio advertising, the OTTA can apply its marketing dollars to methods that may reach more prospective clients, such as direct mail. The use of a marketing plan, as mentioned in the OTTA's *Strategic Vision for 2005*, has focused the Authority's marketing strategies and resulted in overall cost savings.

F5.4 The results of marketing efforts can be assessed through the characteristics of those who choose to join the program. Prepaid tuition programs are generally considered more appropriate for households with an annual income above \$35,000. Households earning less are usually eligible for state and federal grants. **Table 5-3** below indicates the reported household income level of new clients in FY 1998-99 in Ohio and Texas. Only those households that chose to report their income levels were included in the analysis. Michigan and Pennsylvania do not track this information, although an independent assessment of the MET program determined most Michigan clients had an annual household income of over \$40,000.

Table 5-3: FY 1998-99 New Client Household Income Groups

Household Income Range of FY 1998-99 New Clients	Ohio	Texas
Total New Clients	12,595	9,676
Total Reporting Income	8,764	8,713
Percent Reporting to Total	70%	90%
Below \$25,000/ % of Reported	508 or 6%	625 or 7%
\$25,000 - \$50,000/% of Reported	2,331 or 27%	1,593 or 18%
\$50,000 - \$100,000/% of Reported	4,475 or 51%	4,554 or 53%
Over \$100,000/% of Reported	1,450 or 16%	1,941 or 22%

Source: Records and interviews from OTTA and the peer authorities

F5.5 The majority of both the Ohio and Texas programs' clients are drawn from the \$50,000 to \$100,000 income range. In comparison to Texas, OTTA appears to have a slightly lower concentration of clients who earn above \$50,000 in annual household income. Although each authority is charged with making education more affordable, the reported income of clients shows a clientele base with above average income levels.

OTTA officials indicated that while their general marketing strategy is to include clients of all income levels, marketing research has shown that households with annual income levels above \$35,000 tend to join the program more frequently. This is reportedly due to a combination of affordability for those with incomes above this amount and the availability of financial aid for those with household income levels below this amount.

F5.6 In 1998, the National Center for Education Statistics, U.S. Department of Education (NCES) performed a study on college access and affordability and found that, "As family income rises above \$40,000, students are less likely to be eligible for need-based grants and scholarships." The study's authors base this on the federal financial aid eligibility rules which specify an expected family contribution (EFC) that is based primarily on income and assets. This amount is a rough measure of what families can afford to pay on their own.

The NCES also reported that about 66 percent of students with household income levels below \$20,000 received grants, as did 51 percent of those with incomes between \$20,000 and \$39,999. Above \$40,000, the prevalence of need-based aid diminishes, while low-interest, subsidized loans through the Stafford loan program become more common. Students from high income households can use unsubsidized Stafford loans if they are eligible.

R5.1 The OTTA should consider reexamining the marketing strategies used to recruit clients in lower income brackets. Although the OTTA does not exclude families with household incomes below \$35,000 from the direct mail marketing campaign, the direct mail campaign is targeted toward households with income levels above \$35,000. Authority marketing data suggests that lower income families may not join the program but continued and more aggressive marketing efforts targeting lower income groups should be performed. The Authority does promote low minimum contributions of \$15 in all marketing materials. Increasing lower income participation in the program is included as a goal in the Authority's *Strategic Vision for 2005*.

Staffing

F5.7 The marketing staff of the OTTA consists of six employees who are responsible for adding and retaining clients. **Table 5-4** below indicates the number of Marketing Department employees for OTTA and the peer authorities, as well as the corresponding salary and benefits cost.

Table 5-4: Marketing Staffing Analysis

	Ohio	Michigan	Pennsylvania	Texas	Peer Average
Total Full-Time Employees	6.00	2.00	6.00	4.00	4.50
Total Salary and Benefits	\$295,145	\$120,000	\$341,640	\$241,388	\$249,543
In-house or Outsource	In-house	Private Contractor	In-house	Private Contractor	N/A

Source: OTTA and peer authorities records and interviews

F5.8 The Ohio and Pennsylvania programs use in-house marketing personnel to develop print and electronic media to market the program. Texas and Michigan outsource all aspects of marketing including design, printing, and tracking marketing trends. Ohio and Pennsylvania outsource printing and some distribution functions. Ohio and Pennsylvania marketing representatives also sell the program across their respective states, primarily to organizations that can perform payroll deduction for employee contributions to the program. **Table 5-5** below indicates the staffing distribution across the peer authorities.

Table 5-5: Peer Agency Marketing Staffing Levels (in FTEs)

	Ohio	Michigan	Pennsylvania	Texas	Peer Average
Marketing Director	1.00	1.00	1.00	1.00	1.00
Marketing Assistant	0.00	1.00	0.00	1.00	0.50
Publications Manager	1.00	0.00	0.00	1.00	0.50
Public Relations Manager	1.00	0.00	0.00	1.00	0.50
Field Representatives	3.00	0.00	5.00	0.00	2.00
Total Marketing Staff	6.00	2.00	6.00	4.00	4.50
New Client Accounts in FY 1998-99	12,595	1,513	7,500	9,676	7,579
New Client Accounts per FTE	2,099	757	1,250	2,419	1,631

Source: Records and interviews from OTTA and the peer authorities

The average number of staff among OTTA and the peer authorities is 4.5 FTEs. OTTA exceeds this average by 1.5 FTEs due to its three field representatives. The field representative approach is similar to the method used by the Pennsylvania program which maintains regional representatives at each of the five Pennsylvania State Treasurer's regional offices. Texas and Michigan rely on home office staff and outside marketing or advertising contracts to market their programs. Michigan relies heavily on radio advertising. Texas uses television and radio advertising and contracts with the Texas Insurance Association to direct market the program. Although OTTA carries a slightly higher number of FTEs than the peer average, the number of FTEs is comparable to those employed by Pennsylvania's program. Ohio has the second highest salary and benefits costs, surpassed only by Pennsylvania.

F5.9 The OTTA Marketing Department recruited 2,099 new clients per FTE in FY 1998-99. When compared to the peers, this is the second highest number of new clients recruited per FTE. Only Texas surpassed the OTTA new client per FTE rate with 2,419 clients per Marketing FTE. Texas, though, outsources a majority of the marketing function at a cost 40.5 percent greater than the OTTA. Texas' high costs are driven by television and radio advertising as well as a direct marketing contract with the Texas Insurance Association which costs \$25 per new client recruited. In contrast, Ohio's direct salary cost per client recruited is \$23.43.

C5.2 Based on the current sales level and number of FTEs employed in the Marketing Department, it appears that the OTTA has developed a cost effective method of marketing the program to Ohio residents. The current methodology of grass roots campaigns, conducted by the field representatives, and direct mail, generates greater numbers of new clients at a lower cost per new client than peer authorities. In FY 1998-99, the OTTA recruited the highest total number of new clients and the second highest number of new clients per FTE. Also, the age of Ohio's program has allowed the OTTA Marketing Department more time to refine the methods used to market the program than Pennsylvania or Texas.

F5.10 According to the deputy director of marketing, the age of the program and the subsequent growing volume of clients more directly effects the Operations Department than the Marketing Department. This is due to increased clerical and service support functions associated with a growing clientele. The only expansion in OTTA Marketing Department staff was a regional representative for the Toledo area to provide more balanced program marketing coverage statewide which was added in FY 2000-01.

F5.11 **Table 5-6** describes the general duties of each of the Marketing Department employees.

Table 5-6: Position Descriptions for Marketing Department

Marketing Position	Description of Duties
Deputy Director of Marketing	<ul style="list-style-type: none"> • Directs all strategic marketing planning, budgeting and oversight • Contracts various research activities and directs the annual statewide marketing campaign • Creates advertising and promotional opportunities and conducts media interaction
Public Relations Manager	<ul style="list-style-type: none"> • Coordinates all public relations events and key marketing campaigns and serves as primary media contact • Coordinates telemarketing functions and agency participation at trade shows • Prepares annual budget allotments and various reports • Selects and trains seasonal employees for Customer Information Hotline • Coordinates and supervises training of marketing and telemarketing representatives, provides guidance and responds to inquiries
Publications Manager	<ul style="list-style-type: none"> • Produces agency newsletter, annual report, op-ed pieces and other materials associated with the campaign • Coordinates various document productions processes through various vendors • Coordinates Ambassador Club activities • Acts as recording secretary for Executive Committee and full Board
Northeast and Southwest Regional Representatives	<ul style="list-style-type: none"> • Prepares and disseminates OTTA information and coordinates special events in their respective areas of the state • Conducts public speaking engagements and informational sessions for employees of various organizations • Coordinates local payroll deduction recruitment of Ohio companies • Assists public relations manager with local media interviews and appearances • Coordinates trade show participation
Marketing and Legislative Liaison	<ul style="list-style-type: none"> • Provides information and assistance to callers • Assists walk-in clients with purchases, payments and enrollment • Undertakes daily fulfillment of Smart Start kits • Conducts telemarketing to Ohio-based companies to solicit business • Assists in training new employees and provides support at special events

Source: OTTA position descriptions

According to the human resources coordinator and Marketing Department employees, job descriptions are an accurate reflection of the day-to-day duties of employees. Of the six employees in the Marketing Department, the deputy director and the public relations manager are the only two supervisory positions. The deputy director has been employed by the Authority since 1990 and the public relations manager since 1991. Both of these employees average nearly ten years of management experience with the OTTA. Unlike the Operations Department, the Marketing Department benefits from the longevity and accumulated learning

of its employees. The human resources coordinator indicated that the Marketing managers have stayed longer than Operations Department personnel due to several factors including more mid-level professional positions versus entry level positions, greater satisfaction with work meeting career goals, and greater flexibility in work hours.

- F5.12 As indicated in **F3.8**, OTTA employees are compensated in the same manner as unclassified state employees. According to recent salary schedules, the annual salary and benefits costs incurred by the six employees in the Marketing Department would be approximately \$277,645 (see **F5.15**), for an average per employee cost of \$46,274. Employee benefits include an employer contribution to the Public Employee Retirement System (PERS) on behalf of each employee that is approximately 13 percent of the employee's annual salary, and insurance coverages such as health, dental, vision, disability and life. OTTA benefits constitute approximately 25 percent of salaries.
- F5.13 As explained in **F3.9**, the OTTA contracted with a private sector consultant in 1999 to conduct a salary study. Summarized results of marketing position salary range comparisons to the public and private sectors are as follows:

Table 5-7: Wage and Salary Analysis, OTTA Marketing Department

OTTA Marketing Position	Private Sector	Public Sector
Marketing Director	Inconclusive	Comparable
Public Relations Manager	Low	Low
Publications Manager	Low	Low
Regional Representatives	Inconclusive	Low
Marketing Representative	Inconclusive	Low

Source: Reigel Salary Study

Overall, the consultant determined that OTTA had structured a salary program that was reasonably fair and not in need of any major changes.

- F5.14 Regional marketing representative productivity is primarily assessed through establishing goals for sales calls on a monthly basis. Each regional representative must call 100 companies each month to sell the payroll deduction method of purchasing prepaid tuition units. The regional representative list the calls that they made, the individuals they spoke with and the results of the phone conversation. Productivity is based on how many people from the contacted companies actually enrolled in the program. Interviews with marketing personnel indicated that these sales tracking efforts were relatively new. OTTA management is considering a sales commission program as a means to increase sales productivity.

R5.2 OTTA should formally track regional marketing representative sales productivity by establishing a process by which actual sales in a monthly period are compared to established sales goals. This could provide management with a better indication of which sales representatives are most efficiently meeting or exceeding sales goals. The Marketing Department should work closely with the IT Department to develop and track sales data through current database technology capabilities.

To better match compensation to sales and performance, the OTTA should assess all compensation packages related to sales and performance. A sales commission linked to Departmental sales objectives could be offered, or the Authority could use the performance bonus program currently available through the Department of Administrative Services (DAS). Any sales commission or performance bonus program should be discussed with the DAS for issues of legality.

F5.15 While the Marketing Department currently has six FTEs, seasonal fluctuations in part-time staffing affect this staffing level. During the FY 1998-99 OTTA enrollment period, temporary employees assist with mailings and other marketing and operations functions. Based on the reported 25/75 percent split between Marketing and Operations, the Marketing share of temporary employee costs for FY 1998-99 was approximately \$17,500 which is included in the Marketing Department salary and benefits cost.

C5.3 The OTTA Marketing Department appears to effectively employ staffing and monetary resources to recruit the greatest number of new customers when compared to the peers. As indicated in **Table 5-2**, OTTA's Marketing Department enrolled the most new clients in FY 1998-99 (12,595) while maintaining the lowest cost per new client of \$81.15. Through using in-house marketing personnel to canvass the state, the OTTA may reduce costs while increasing program recognition.

Efficiency and Effectiveness of Marketing Methods

F5.16 OTTA allows clients to enroll in the program at any time. However, an enrollment campaign is conducted during a specific time of the year to promote an increase in memberships. The FY 1998-99 enrollment campaign ran from October 1, 1998 to February 12, 1999. According to interviews with OTTA management, the enrollment campaign is based on a marketing premise known as "call to action." This principle uses the establishment of deadlines to prevent a delay in decision-making by clients. The enrollment campaign dates are not randomly selected. Rather, the dates coincide with the beginning of the school year, when parents are thinking about education. It also coincides with the time frames of the WAT price adjustments made by the OTTA.

F5.17 Media campaigns are used in conjunction with the enrollment period and encompass several different types of media including television, radio and direct mail. In the 1996 CJI Research strategic planning document, a strategy was developed to test various media methods for their impact and cost effectiveness. This strategy was designed to allow OTTA to determine which marketing methods would be most cost effective in the long-term. Television was test-marketed in the Columbus area during FY 1997-98 at a total cost of \$165,071. According to the public relations manager, this advertising method was deemed too expensive. The marketing managers felt that too few clients indicated “television” when asked how they heard about the program to justify the expense. Interviews with public relations professionals in the Columbus area indicate that OTTA’s decision to cease television advertising may be a cost-effective decision. The central Ohio market is expensive due to the large population in the area and the overlap with other major market areas such as Cleveland and Cincinnati. Radio advertising efforts netted similar results for OTTA. In FY 1997-98, \$99,132 was spent on radio promotions.

Since the initial test marketing, television and radio advertising have been nearly eliminated from the advertising budget for the prepaid tuition program. There are no current plans to resume television or radio advertising on a test market or statewide basis for the prepaid program but the Authority plans to include radio and television advertising as a component of the RFP for the new college savings plan. This policy decision is made clear in the FY 1999-00 marketing plan, which allocates only \$11,500 for advertising initiatives which is split between year-round Yellow Pages advertising in major metropolitan areas in Ohio and contributions to the College Savings Plan Network (CSPN). The CSPN is a national association for all state college savings plans and sponsors a national toll-free number and a Web site. **Table 5-8** shows the marketing expenses of OTTA for FY 1998-99 by type.

Table 5-8: Marketing Expenses by Type (FY 1998-99)

Marketing Initiative	Actual Expenditures
Television/Radio	\$0
Yellow Pages/College Savings Plan Network	\$7,636
Direct Mail (newspaper inserts, magazine inserts, post cards and mailing lists)	\$221,725
Promotion/Event (trade shows, promotions and promotional items)	\$36,442
Marketing Materials (Enrollment Kits, brochures, gift certificates, postage)	\$182,888
Public Relations (consultant and press release distribution)	\$33,037
Special Campaigns (newborn campaigns and trade shows)	\$73,931
Clients Mailings (statements, volume discount and price change notices)	\$105,660
Tuition Trust Partners Plan (instructional packets, introductory mailing and awards)	\$65,596
TOTAL	\$726,915

Source: OTTA financial reports

- F5.18 The peer authorities use several different media tools not employed by the OTTA. Pennsylvania, for instance, spent approximately \$1.2 million in FY 1998-99 for television advertising, which they feel is a key marketing and advertising resource. The director of the Pennsylvania program believes that television reaches a wide audience, yet no definitive enrollment or revenue figures could be tied to that expense. Texas also relies on television and radio marketing campaigns while Michigan usually uses radio spots to market its program.
- F5.19 Rather than rely on television or radio, the OTTA's marketing efforts have a strong emphasis on direct mail. According to the OTTA's FY 1999-00 marketing plan, direct mail has been successful in past campaigns and allows for cost effective targeting of the organization's primary and secondary markets. The direct mail emphasis is evident in Authority expenditures as it is the single largest expense category within the marketing budget. During FY 1998-99, direct mail comprised \$221,725 or 21.7 percent of the total marketing expenditures of \$1,022,061. **Table 5-9** below is a summary of the major direct mail initiatives budgeted for FY 1999-00.

Table 5-9: Major Direct Mail Initiatives for FY 2000-01

Mailing	Description	Quantity	Budget
Newspaper Inserts	8.5x11 full color insert w/return coupon to request information	1,000,000	\$120,000
Purchased Mail List	Mailing to targeted families with children ages 0 to 9. Includes reply card to request an enrollment kit	150,000	\$78,000
Purchased Mail List (2)	Follow-up post cards to targeted list to push action	125,000	\$56,250
Minority Families Mailing	Purchased list mailing to African American families and related targeted publications inserts	40,000	\$20,800
Campaign Materials Mailing	Campaign poster and coupon distribution	8,550	\$21,000
Enrollment Kit Mailing	Kit mailing to most recent inquiries only	15,000	\$19,000
Post Card Announcements	Announce campaign dates and special offers	40,000	\$18,000
Post Card Reminders	Reminders for enrollment and benefits deadlines	75,000	\$33,750
Total		1,435,550	\$366,800
Average Price per Piece			\$0.256

Source: OTTA interviews and FY 1999-00 Budget

These direct mail initiatives encompass four major marketing strategies:

- Maximize coverage through newspaper inserts in major metropolitan newspapers
- Focus on those who have contacted the Authority for information but have not enrolled
- Target favorable demographic groups through purchased mailing lists
- Supply materials to targeted clients or organizations (schools, day care)

Based on marketing studies and the number of clients recruited, the OTTA determined that direct mail was the most effective means of reaching its potential clients. Direct mail was also the second least costly marketing method, surpassed only by the word-of-mouth referral program.

F5.20 Data tracked during the OTTA's FY 1998-99 enrollment period showed that the majority of sales were generated by direct mail, followed closely by referrals. **Table 5-10** below shows the number of new clients generated by each media methodology used, as well as total expenditures by type and the cost per sale.

Table 5-10: Marketing Costs by Type and by Sale

Major Marketing Initiatives	Sales	Expenditures	Cost per Sale
Direct Mail	3,954	\$238,100	\$60
Referrals	3,583	\$23,540	\$7
Internet	1,578	\$20,000	\$13
Newspaper Inserts	1,331	\$97,800	\$73
Tuition Trust Partner's Plan	765	\$63,450	\$83
Total/Average	11,211	\$442,890	\$236

Source: OTTA marketing study

Internet and newspaper inserts generated less than half the number of customers recruited through direct mail and the referral program. Although the referral program is the most cost effective, Internet sales are a close second in cost efficiency. The Tuition Trust Partner plan is the most expensive of the types shown and recruited the fewest clients of all media types used.

C5.4 The OTTA Marketing Department bases marketing decisions on research data and experience gained through surveys of new customers, as well as test marketing strategies. By eliminating television and radio advertising, the Marketing Department has removed two major cost drivers from the OTTA marketing plan. The Marketing Department has shown a commitment to the strategic plan developed in 1996 and has worked toward several of the goals. This dedication to continued research and development is reflected in the low cost recruitment alternatives shown in **Table 5-10**. As stated in the Authority's *Strategic Vision for 2005*, marketing analyses should be used to continue exploring new options for products, services and delivery methods.

F5.21 In 1998, a management analysis of OTTA marketing efforts was conducted by a private consulting firm. The major goals of the study were to: develop detailed client information, analyze the general opinions of clients regarding program attributes and service quality, measure program awareness and penetration among Ohio households with children, and determine the reasons why individuals do not enroll despite contacting OTTA and requesting program information. The research process used four major methodologies:

- **Database Analysis:** 38,429 unique clients were identified and demographically categorized. This work was performed by a subcontractor which specializes in geo-demographic marketing analyses using zip codes and addresses.

- **Qualitative Research:** Two focus groups were organized to discuss general program features, service quality and reactions to a proposed fixed payment option. In addition, a discussion group focused on literature and other materials used in the enrollment process.
- **Quantitative Research:** Three survey populations were identified by the OTTA: participants, non-responders and random Ohio households with children under the age of fifteen. Surveys covered general attitudes on saving and investing, funding a college education, program awareness, service quality and service delivery. Survey questions were standardized and the surveys were conducted by live telephone operators.
- **Database Integration:** Data from the demographics study was integrated into OTTA data files to allow for further analyses and to assist with future marketing campaigns.

The general conclusions of the study were classified under the following categories:

- **Awareness:** Two-thirds of Ohio households with children under 15 years of age are aware of the program. Households with an annual income above \$75,000 are twice as likely to be aware of the program. Most people become aware of the program through newspaper or magazine ads, word-of-mouth or PTA or school affiliations.
- **Participant Profile:** Nearly one-third of clients have an annual household income above \$75,000.
- **Key Program Features:** Clients are attracted to the program because of its perceived value, guarantee and purpose. Flexibility to use units at any school and the personal feeling of providing a wise investment for the future of the child are also important factors.
- **Service Quality:** Eighty-two percent of clients were either “somewhat” or “very” satisfied with the program. Approximately 90 percent of clients would recommend the program to others. Eighty percent of clients were satisfied with program literature and 90 percent were satisfied with the level of telephone customer service.
- **Alternative Access to Client Account Information:** Clients were interested in new ways to access account information, such as automated telephone lines and the Internet.

- **Savings and Investment Tendencies:** Clients perceive the program as a conservative investment vehicle. Use of stocks, mutual funds and other investments does not vary significantly between participants and a random sample of Ohioans.
- **Program Use:** Special offers are used by half of program clients and more than one-third of clients have relatives who contribute to the tuition account. Sixty percent of clients are unaware or unsure of tax benefits.
- **Reasons for Non-Enrollment:** Among those who requested program information but have not yet enrolled, three primary reasons for not enrolling were given: a need for more information, a better return on other investments and inadequate financial resources.

C5.5 The Marketing Department changed portions of its marketing practices based on the research results. The Department is incorporating facets of the study into marketing plans. Examples of how the marketing analysis has resulted in changes in OTTA marketing are as follows:

- Conclusions regarding awareness of the program have resulted in increased emphasis in marketing through employers. The OTTA expanded the use of marketing materials distributed by field representatives which were then directed to payroll officers in targeted companies. Increased program awareness among these payroll officers was found to lead to increased sales.
- Flexibility issues indicated that OTTA needed more program options. As a result, OTTA added the use of room and board as a qualifying expense for the program. Also, the refund policy has become much more flexible as the one-year cooling off period has been eliminated, allowing refunds to be processed much more quickly.
- OTTA improved program literature based on the recommendations of an internal focus group. A greater number of graphs and charts are included to make the literature easier to read.
- To reach more aggressive investors, the OTTA began planning the implementation of the college savings plan.
- OTTA also began a concerted effort to clarify the tax implications of the program. The OTTA expanded the tax information section in the main brochure, the Web site, and the FAQ documents and newsletters.

R5.3 The Marketing Department should intensify efforts to educate clients and potential clients about the tax benefits of the program and the types of college costs that can be paid out of

the prepaid tuition program. As indicated in the study, 60 percent of program clients were unaware or unsure of the program's tax benefits. Educating clients on this issue should be a high priority in future campaigns and other communication efforts. Also, clarifying what expenses can and cannot be paid for with tuition units should be a high priority as this issue remains poorly defined to many program clients.

Furthermore, OTTA should act on issues highlighted in the 1998 marketing study, such as affordability and client profile. The study found that program clients are more affluent than the average Ohio citizen and that affordability is mentioned as a barrier to joining the program. OTTA management stated that these conclusions have not led to any major policy changes as tuition units are already offered at or below market value.

F5.22 *The Best Way to Save for College*, a recently published book which compares state tuition savings programs across the country, provides descriptions and ranks each state program according to the overall "usefulness" of the program. The rankings are developed from a customer perspective and use several criteria. Positive program aspects within each category are summarized as follows:

- **Flexibility:** High contribution maximums, low minimums, wide eligibility standards, ability to use units for a wide range of expenses, latitude in changing beneficiaries and ability to roll-over to other plans without penalties
- **Liquidity and Availability:** Ability to use the account immediately, easy deposit and withdrawal procedures and the ability to take partial non-qualified withdrawals without terminating the account
- **Ownership Rights:** Account owner ability to transfer ownership any time and name a successor owner
- **State Benefits:** Tax deductions for program contributions and exemptions for earnings used for college, exclusion of 529 accounts from consideration in state-funded financial aid programs and offering resident tuition prices to prepaid beneficiaries who later move out of state
- **Investment Approach and Safety:** Well-designed investment strategies and highly rated products, maximum investor choice, state guarantee of contracts, investment protection, age-based discounts and low fees and expenses
- **Program Resources:** Well-developed written materials, proper use of legal counsel, modern customer service centers and highly functional Web sites

Based on these criteria and using a five point scale, the Ohio Prepaid Tuition Plan received a ranking of two out of five. While this ranking may be reflective of perceived client-friendly program aspects, issues such as administrative efficiency and actuarial evaluations were not taken into consideration and the analysis focuses only on those issues directly relevant to the client. The table below outlines the categories and rankings for the Ohio prepaid tuition program and the peers. Due to the low rankings given to Ohio and the peers in this regard, the table contains additional comparison data from the higher ranking Virginia and Missouri programs.

Table 5-11: Comparison of State Programs, *The Best Way to Save for College*

	Ohio	Michigan	Penn.	Texas	Virginia	Missouri
Program Type	Prepaid	Prepaid	Prepaid	Prepaid	Prepaid	Savings
Initial Year of Operation	1989	1988	1993	1996	1996	1999
Residency Requirements	Yes	Yes	Yes	Yes	Yes	None
Age/Time Requirements¹	No	Yes	Yes	Yes	Yes	No
Earnings State Tax Exempt	Yes ²	Yes	Yes ²	No	Yes	Yes
Enrollment Period	Open	Sep.-Mar.	Open	Nov.-May	Dec.-Feb.	Open
Program Fee	\$10 - \$50	\$85	\$50	\$50	\$85	Ratio
Resident Rating³	2	1	2	2	3	5
Non-Resident Rating	N/A	N/A	N/A	N/A	N/A	4
Maximum Contribution	\$80,000 ⁴	\$21,000	IRS ⁵	\$60,000	\$27,500	\$100,000

Source: Records and interviews from OTTA and the peer authorities

¹ Age and time requirements regulate the age at which someone can join the program and the lengths of time that a client must wait to use their accumulated units after joining. While the absence of such regulations is an added bonus for prospective customers, it is to the advantage of the tuition program to implement such regulations as it forces clients to invest for an extended period of time.

² In Ohio and Pennsylvania, earnings on payments are state tax exempt if used for college expenses. Virginia, Missouri and Michigan allow both interest earnings and the contract price to be deducted from state income taxes.

³ Michigan is ranked low due to perceived burdensome administrative processes. Texas is a highly popular program which enrolled the bulk of its clients in its first two years of operation. Virginia is cited as having strong tax benefits. Missouri is highly rated due to strong tax benefits, investor choice and lack of residency requirements.

⁴ This cap was set at 2,000 units but will be eliminated with the implementation of the new savings program.

⁵ Pennsylvania's maximum contribution is determined by an IRS formula based on the selected school.

F5.23 Among all of the states compared throughout the book, savings programs consistently received higher ratings than prepaid tuition programs. The book's emphasis on client-oriented issues such as liquidity, higher investment returns and client choice over investments was the likely cause for the universally higher ratings received by the savings plans. **Table 5-12** provides more detailed explanations of the perceived strengths and weaknesses of OTTA's prepaid tuition program.

Table 5-12: Positive/Negative Client Aspects of the OTTA Prepaid Tuition Program

Positive Aspects	Negative Aspects
<ul style="list-style-type: none"> • Earnings are exempt from Ohio state income taxes if used for college • Unit value guaranteed by the state • Units can pay for any eligible expense in Ohio or out-of-state, undergraduate or graduate school • No waiting period to use units • Tax benefit protection to purchaser for non-qualified withdrawals • Account is protected from creditors • Owner and beneficiary may be the same person • Corporations, trusts and partnerships qualify as account owners • Program materials are clear and comprehensive 	<ul style="list-style-type: none"> • Units may not be used for education expenses that are not direct-billed by the university • No state tax deduction for contributions with prepaid plan¹

Source: *The Best Way to Save for College*

¹ The tax deduction was implemented effective January 1, 2000 by Ohio Senate Bill 161.

The author's primary objection to the OTTA program was the lack of liquidity and he suggested that investors may prefer other state programs as a result. The author also indicated that newer state programs tend to have more client-friendly options. As more citizens become aware of their options regarding college savings plans, clients may seek to invest in out-of-state plans with more favorable program options.

The deputy director of marketing indicated that the program's lack of liquidity is often perceived as a positive by OTTA clients because it forces them to be disciplined with their college savings. The OTTA has recently become more flexible regarding liquidity due to its elimination of the "cooling-off" period. This provision required a one-year waiting period for high school graduates with OTTA accounts who decided not to attend college and requested a refund.

R5.4 To enhance marketability, the Authority should evaluate the concerns and issues raised in **Table 5-12** and should consider gearing future marketing initiatives toward addressing these concerns and issues. Some issues have already been addressed by the Board and are not included in **Table 5-12**, but future opportunities to change OTTA policy should include an examination of the above issues for potential modification. Other states may offer new or optional strategies in this regard. For instance, Pennsylvania allows for withdrawals to be made at any time. However, withdrawals must be for the entire amount of the account or none at all. This policy allows client liquidity while preventing the account from being misused.

F5.24 During the enrollment campaigns, the OTTA markets the program through a variety of special projects. Key special marketing programs are listed below.

- **Ambassador Program:** Special discounts to those clients who market the OTTA

- **Tuition Trust Partners Plan:** Collaboration with schools to increase enrollments while offering special discounts to those schools that participate
- **Smith Dairy/Key Bank Promotion:** A scholarship promotion which generated 18,000 entries. Different sponsors are chosen on an annual basis
- **Minority Recruitment Effort:** Mailings and inserts targeted at African-Americans

Marketing programs that partner the OTTA with private corporations are an important component of the business partnering programs mentioned in the Authority's *Strategic Vision for 2005*. In future ventures, the OTTA should also seek partnerships which generate matching funds, purchase units for employee education, or provide additional opportunities to market the Authority's programs.

F5.25 The Marketing Department has also launched a new promotion in cooperation with the Kroger Corporation. The Kroger VISA Card Program allows clients who shop at Kroger to accumulate tuition units as they make purchases. This promotion has provided valuable radio advertising for the OTTA with no advertising expenditures from the OTTA budget. According to the deputy director of marketing, private corporations view the OTTA and its financial products in a favorable manner, and are willing to establish marketing partnerships and incur significant advertising costs.

C5.6 The OTTA markets the prepaid tuition program outside of the normal sales channels of the enrollment campaigns. This presents opportunities to increase sales and exposes the program to a wide variety of potential clients. These efforts also allow OTTA to advertise widely without negatively impacting their own budget. Through alternative advertising and partnership programs, the OTTA has achieved a wide area, low-cost product coverage.

Technology

F5.26 The Authority's Web site is considered a marketing tool and several features of the site are specifically geared toward marketing the program to new clients. As indicated in **F4.26**, the OTTA Web site has a wide variety of functions. The integration of the new college savings plan into OTTA may expand these capabilities as the agency will look to the prospective vendor for Web site support. In the fall of 1999, potential clients were able to enroll on-line for the first time. From October 1, 1999 to May 2, 2000, the Web site processed 1,131 enrollments worth approximately \$550,000 in revenue. During this same time period, 5,881 requests for enrollment kits were made via the Web site.

C5.7 The OTTA Web site clearly explains program data and allows clients to contact client service representatives via E-mail to receive technical assistance. The Web site also allows OTTA

to reduce total marketing costs by empowering clients to retrieve information about the program that would have otherwise required a mailing of printed materials. The immediate accessibility and convenience of the Web site also encourages potential clients to explore prepaid program options and request enrollment materials during non-business hours.

F5.27 The other major technology tool used by OTTA's Marketing Department is the Sybase Sequel database and Power Builder report writer program. The programs allow marketing data to be stored with the IT Department. Mailings can be generated based on a query with certain file specifications. The resulting report can be sent to one of the printers on contract with the agency to generate a mailing.

C5.8 The increased emphasis on technology and database development allows the Authority to tailor marketing information to specific clients, thereby reducing waste and overall marketing costs per client. Using technology such as Sybase Sequil is also reflected in overall lower agency costs as the Marketing Department performs this function in-house though the OTTA's IT Department.

Contracted vs. In-House Marketing Services

F5.28 In performing a high-level analysis of privatization opportunities within the Marketing Department, major functions and activities were evaluated with respect to a number of criteria that are important considerations in assessing privatization opportunities. **Table 5-13** details the assessment criteria and provides a description of the key issues.

Table 5-13: Marketing Privatization Opportunities Assessment

Assessment Criteria	Key Issues	Marketing Department
Sufficient Volume?	Is the volume of work associated with function/activity sufficient to justify internal performance?	Yes
Prohibitive control requirements?	Are the management, oversight and control requirements associated with external performance of the functions excessive?	No
Complexity?	Is the function/activity too complex to be performed by external resources?	No
Influenced by regulatory/compliance environment?	Is the performance of the function/activity regulated?	No
Significant capital investment?	Are significant capital investments required in association with the internal performance of the function/activity?	No
Procurable services?	Are high quality, external service providers available to perform the function/activity?	Yes
Significant operating cost?	Will the potential benefits of utilizing external resources likely offset/exceed the potential costs?	Yes
Quality?	Is there a high probability that external performance of the function/activity would reduce quality and service levels?	Yes
Potential Privatization Opportunity		Low

F5.29 Although the marketing function is not highly constrained by regulation, it is unlikely that the quality of the marketing product would be increased through outsourcing. In addition, outsourced marketing functions appear to be more expensive than those currently performed in-house. Because of the potential for reduced quality and increased cost, it appears that the Authority's marketing function has a low potential for privatization.

F5.30 Despite the low potential for full-scale privatization, the Marketing Department has developed important relationships with several outside vendors for various support services. **Table 5-14** shows all outsourced contracts within the Marketing Department budget. According to Marketing Department personnel, the wide range of services shown below are necessary to achieve desired marketing outcomes and the wide range of vendors allow the OTTA to receive better prices for services.

Table 5-14: FY 1998-99 Marketing Contracts

Contract Name	Description	Actual Expenses FY 1998-99
Baesman Printing ¹	Daily fulfillment of enrollment kits, welcome kits and direct mail postage, sorting and delivery to post office	\$41,543
Bittner Consulting	Web site edits, copy writing and design as needed and assistance with client newsletters and forms	\$22,399
Design One	Graphic design work for enrollment book, direct mail and all campaign collateral material	\$18,373
Marcy Design Group	Logo design services, brochure and video production for the Tuition Trust Partners Plan.	\$27,213
Marketing by Vectra ¹	Personalized client mailing, printing and fulfillment for client statements and marketing mailings to clients	\$35,442
National Graphics	Printing of enrollment kits, direct mail and campaign materials	\$165,509
Tuller Printing ¹	Letterhead, envelopes, business cards and various forms	\$35,434
Wise Idea	Public relations consultant to assist with media relations and special event coordination	\$21,395
Total		\$367,308

Source: OTTA Marketing Department interviews and records

¹ Contracts service both the Marketing and Operations Departments

R5.5 The Authority should consider bundling a portion of the above contracts in order to achieve greater oversight control and potentially improve costs savings. According to the deputy director of marketing, many of the advertising and printing service contracts in **Table 5-14** will be combined in FY 2000-01. This will reportedly allow the OTTA Marketing Department to reduce costs and allocate additional time to the implementation of the new college savings plan. In addition, the above services should be contracted through requests for proposals on an annual or biannual basis to ensure that the OTTA is receiving the best combination of price and product.