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STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

MELANIE M. CHESNEY
DEPUTY AUDITOR GENERAL

October 1, 2018

The Honorable Anthony Kern, Chair
Joint Legislative Audit Committee

The Honorable Bob Worsley, Vice Chair
Joint Legislative Audit Committee

Dear Representative Kern and Senator Worsley:

Our Office has recently completed an initial followup of Arizona's Universities—Fee-Setting Processes regarding the implementation status of the 21 audit recommendations (including sub-parts of the recommendations) presented in the performance audit report released in January 2018 (Auditor General Report 18-101). As the attached grid indicates:

- 3 have been implemented;
- 17 are in the process of being implemented; and
- 1 has not been implemented.

Our Office will conduct an 18-month followup on the status of those recommendations that have not yet been fully implemented.

Sincerely,
Dale Chapman, Director
Performance Audit Division

cc: John Arnold, Executive Director
Arizona Board of Regents

Dr. Michael M. Crow, President
Arizona State University

Dr. Rita Hartung Cheng, President
Northern Arizona University

Dr. Robert C. Robbins, President
University of Arizona

Arizona's Universities—Fee-Setting Processes

Auditor General Report 18-101

Initial Follow-Up Report

Recommendation

Status/Additional Explanation

Finding 1: ABOR and universities have established some fee-setting processes consistent with best practices, but should further enhance their processes

1.1 ABOR should determine if administrative costs are an allowable use of class fee revenues, and if it does so, ABOR should revise its policies and guidance to authorize this use, including providing guidance on how the universities should calculate the portion of class fee revenues that will be used for administration.

Implementation in process

During its February and April 2018 board meetings, ABOR approved revisions to its class fees policy and guidance to authorize administrative costs as an allowable use of class fee revenues. In addition, ABOR revised its fee proposal forms for differential tuition, program fees, class fees, and other academic fees to include a separate line item for listing any administrative service charges that will be paid using the proposed fee's revenues for ABOR's review and approval.

During its September 2018 meeting, ABOR's Finance, Capital, and Resources Committee discussed additional revisions to ABOR's fee-setting policies. If approved, the new policies would require the universities to include estimated fee revenues and a description of the proposed uses of mandatory, program, class, and other academic fee revenues—including any administrative costs—in the fee proposals presented to ABOR for review and approval. The new policies also explicitly state that revenues for these fees may be used for any board-approved purposes, including approved administrative costs. According to ABOR staff, the universities' fee proposals should justify the use of fee revenues for administrative purposes and include the method university staff used to calculate the portion of fee revenues that will be used for administrative purposes. ABOR staff reported that ABOR plans to finalize any additional revisions to its fee-setting policies and guidance prior to its April 2019 board meeting, during which ABOR will approve the universities' student fees for the 2019-2020 academic year.

Recommendation

Status/Additional Explanation

1.2 ABOR should revise its fee-setting policies and guidance for mandatory fees and differential tuition/program fees to require the universities to:

a. Develop clearly defined purposes for proposed fees, such as by outlining the benefits that those who pay the fee should expect to obtain or providing information about the specific items for which the fee is intended to pay;

b. Consider the appropriateness and costs of the items or services for which each fee is intended to pay, including whether the proposed fee rate will cover all or a portion of these costs, and specifying the cost information that should be provided to ABOR for review and approval; and

c. Include administrative costs in fee proposals, including outlining under what circumstances spending fee revenues for administrative costs will require ABOR approval and specifying the administrative cost information that should be submitted to ABOR for review and approval.

Implementation in process

As part of approving the universities' student fees for the 2018-2019 academic year, ABOR revised its fee proposal forms for differential tuition, program fees, class fees, and other academic fees to require the universities to include information about these fees' purposes. Additionally, ABOR staff instructed the universities to outline the benefits that those who pay the fee should expect to obtain and explain the items and services for which proposed fees are intended to pay.

As reported in the explanation for Recommendation 1.1, ABOR's Finance, Capital, and Resources Committee discussed additional revisions to ABOR's fee-setting policies in September 2018. If approved, the new policies would require the universities to submit proposals for mandatory fees that include a description of the fee's purpose, a description of the proposed use of fee revenues, and the estimated costs of those uses. ABOR staff reported that ABOR will finalize any additional revisions to its fee-setting policies and guidance prior to its April 2019 board meeting.

Implementation in process

ABOR's revised fee proposal forms instruct the universities to describe the fees' intended use and explain whether the proposed fee rate will cover all or a portion of the costs of these intended uses. As part of approving universities' student fees for the 2018-2019 academic year, ABOR staff reviewed and requested additional information from each university about how it determined proposed fees' costs and whether fee revenues would cover all or a portion of these costs. As reported in the explanations for Recommendations 1.1 and 1.2a, ABOR plans to finalize any additional revisions to its fee-setting policies and guidance prior to its April 2019 board meeting.

Implementation in process

See explanations for Recommendations 1.1 and 1.2a.

Recommendation

Status/Additional Explanation

1.3 ABOR should revise its fee-setting policies and guidance to clarify its expectations for what information should be submitted to ABOR about student input that has been obtained for fees and determine if there are additional opportunities that can be provided for obtaining student input on all student fees charged by the universities, including class fees.

Implementation in process

During its February and April 2018 board meetings, ABOR approved revisions to its fee-setting policies to specify that the universities are required to submit evidence of student consultation when proposing program fees and differential tuition.

During its September 2018 meeting, ABOR's Finance, Capital, and Resources Committee discussed additional revisions to ABOR's fee-setting policies that, if approved, would require the universities to submit evidence of student consultation for mandatory fees and other academic fees. The proposed policy revisions would also clarify that evidence of student consultation is not required for class fees other than the existing annual public hearing for all tuition and fees. As indicated in the explanations for Recommendations 1.1 and 1.2a, ABOR plans to finalize any additional revisions to its fee-setting policies and guidance prior to its April 2019 board meeting.

1.4 As part of its review of existing fee-setting processes, ABOR should revise its fee-setting policies and guidance to require a periodic review of the universities' fee-setting processes to help ensure revenues are spent for approved purposes and that the fees are still necessary and set at appropriate rates.

Implementation in process

During its September 2018 meeting, ABOR's Finance, Capital, and Resources Committee discussed revisions to ABOR's fee-setting policies that, if approved, would require the universities to develop and implement a plan to systematically review all fees internally as part of a sunset process and present each fee for board review and approval at least once every 10 years. ABOR staff reported that any policy revisions will be finalized prior to ABOR's April 2019 board meeting.

1.5 ABOR should determine whether all student fees charged by the universities require its review and approval, and revise its fee-setting policies and guidance accordingly.

Implementation in process

During its September 2018 meeting, ABOR's Finance, Capital, and Resources Committee discussed revisions to ABOR's fee-setting policies that, if approved, would specify which student fees charged by the universities require ABOR review and approval and which student fees the university presidents have discretion to establish. The draft policies also indicate that mandatory, program, and other academic fees—not including class fees—that did not receive ABOR approval will sunset on July 1, 2019, unless continued by ABOR. ABOR staff reported that any policy revisions will be finalized prior to ABOR's April 2019 board meeting.

1.6 ABOR should revise its fee-setting policies and guidance to require the universities to include in differential tuition, program fee, and class fee proposals information about all existing fees students must pay for a particular degree program.

Implemented at 6 months

Recommendation

Status/Additional Explanation

1.7 ASU should develop and implement written policies, procedures, or other guidance to:

a. Direct academic departments' reviews of class fee revenue spending to help ensure that fee revenues are used for approved purposes, including specifying the frequency of these reviews, defining central university administration's oversight role and responsibilities for these reviews, and providing guidance on reviewing spending for all class fees to determine if expenses were for approved purposes, including reviewing class fees with revenues that are deposited into combined accounts to determine whether the justification for combining the accounts is consistent with the approved purposes of the individual fees and that fee revenues were spent for shared resources as outlined in the justification to combine fee revenues;

b. Consider all required fees students may potentially pay when proposing new fees or increases to existing fee rates and to provide this information to those responsible for reviewing and approving the fees; and

c. Conduct regular reviews of all student fees to determine if they are still necessary and set at appropriate rates.

Implementation in process

ASU has developed a procedure requiring all academic departments to annually review all class fees and certify to central university administration that the fees are still necessary and set at an appropriate rate, identify any unspent account balances, and determine whether revenues were used in compliance with ABOR policies and the approved use of the class fee. ASU reported that academic departments conducted the first annual review in August 2018 and that, as part of this review process, central university administration plans to conduct its own review and approval of the individual departments' class fee review results in September 2018.

In addition, in May 2018, ASU's internal audit department issued a class fee audit report that included findings related to ASU's process for depositing revenues from individual fees into combined accounts and spending fee revenues for shared resources. In its management response to these findings, ASU reported that it is in the process of revising its processes for reviewing and approving these class fees and implementing new processes for monitoring the use of class fee revenues.

Implementation in process

As of April 2018, ABOR requires the universities to include information about other required fees that students may potentially pay when proposing new differential tuition, program fees, and class fees or increases to existing fees. ASU provided this information in the fee proposals it submitted to ABOR for the 2018-2019 academic year. ASU reported it will develop a process for reporting this information once ABOR finalizes revisions to its fee-setting policies (see explanations for Recommendations 1.1 and 1.2a).

Implementation in process

As discussed in the explanation for Recommendation 1.7a, ASU has developed a procedure requiring all academic departments to annually review all class fees and for central university administration to oversee the departments' reviews. In addition, if proposed ABOR policy changes are approved, ASU will need to establish a review process for all of its student fees. As reported in the explanation for Recommendation 1.4, ABOR's Finance, Capital, and Resources Committee discussed revisions to ABOR's fee-setting policies in September 2018 that, if approved, would require the universities to develop and implement a plan to systematically review all student fees as part of a sunset process.

Recommendation**Status/Additional Explanation**

1.8 ASU should take steps to ensure that its review of the Student Athletics fee charter is completed as planned, revise its Student Athletics fee procedures and guidance to reflect any changes made to the charter, and implement any new procedures and/or guidance consistent with the revised charter.

Implemented at 6 months

1.9 ASU should take steps to identify and make available opportunities for students to provide input on class fees and/or the process for setting class fees.

Implementation in process

In March 2018, a member of ASU's central university administration met with members of ASU's student government to discuss class fees. Additionally, ASU reported that it plans to discuss the overall purpose of and process for setting class fees with student government representatives at the beginning of calendar year 2019 as part of its fee-setting process for the 2019-2020 academic year.

1.10 NAU should develop and implement written policies, procedures, or other guidance to:

- a. Help ensure that class fee revenues deposited into combined accounts are spent for approved purposes and provide the expected benefits to the students who paid the fees;

Implementation in process

ABOR's Finance, Capital, and Resources Committee discussed revisions to ABOR's fee-setting policies in September 2018 that, if approved, would require the universities to either account for each class fee separately or seek ABOR approval to combine revenues from multiple fees to fund shared resources.

NAU reported that although NAU staff have begun discussing potential revisions to NAU's existing fee-setting procedures, NAU does not plan to develop and implement the recommended written policies, procedures, and other guidance until ABOR finalizes its fee-setting policies (see explanations for Recommendations 1.1 through 1.5). In addition, in May 2018, NAU Internal Audit completed an audit of class fees that it plans to present to the ABOR audit committee for its review and approval in November 2018. NAU reported that it also plans to incorporate any recommendations from the internal audit report as part of its development of fee-setting policies and procedures.

Recommendation

Status/Additional Explanation

- b. Outline its process for obtaining student input for mandatory fees and program fees, and identify and make available opportunities for students to provide input on class fees and/or the process for setting class fees;

- c. Consider all required fees students may potentially pay when proposing new fees or increases to existing fee rates and to provide this information to those responsible for reviewing and approving the fees;

- d. Outline a method for determining the costs of the equipment, supplies, items, or services needed for the class, including any administrative or other costs that are shared between multiple fees, and require this information to be submitted with class fee proposals. NAU should also require central university administration staff responsible for approving class fees to review the cost information submitted with class fee proposals; and

Implementation in process

As of April 2018, ABOR's revised fee-setting policies require the universities to submit evidence of student consultation when proposing program fees and differential tuition (see explanation for Recommendation 1.3). Consistent with these revised requirements, NAU submitted information about the student input it obtained for the program fee proposals it submitted to ABOR for the 2018-2019 academic year. Proposed revisions to ABOR policies would also require the universities to submit evidence of student consultation for mandatory fees. NAU reported that it will develop written policies, procedures, and other guidance for obtaining student input for mandatory fees, differential tuition, and program fees and making additional opportunities to obtain input available for class fees once ABOR finalizes revisions to its fee-setting policies (see explanations for Recommendations 1.1 and 1.3).

Implementation in process

As of April 2018, ABOR policy requires the universities to include information about other required fees that students may potentially pay when proposing new differential tuition, program fees, and class fees or increases to existing fees. NAU provided this information in the fee proposals it submitted to ABOR for the 2018-2019 academic year. NAU reported it will develop policies and procedures for reporting this information once ABOR finalizes revisions to its fee-setting policies.

Not Implemented

NAU reported that it has begun developing class fee-setting guidance for determining the costs of the equipment, supplies, items, or services needed for the class and submitting this information with class fee proposals to central university administration for review and approval. NAU reported that staff met to discuss the process for reviewing cost information submitted with class fee proposals in July 2018 and estimated that its guidance would be completed by October 2018. However, NAU did not provide documentation demonstrating its efforts to develop the guidance.

Recommendation

Status/Additional Explanation

- e. Direct academic departments' review of class fee spending to help ensure that fee revenues are used for approved purposes, including how class fee spending reviews will be incorporated into NAU's existing annual budgeting and sunset review processes, and should specify the information that should be reviewed and considered as part of the sunset review process to determine if the fee is still necessary and if the rate is still appropriate, and central university administration's oversight role and responsibilities for these reviews.

Implementation in process

See explanation for Recommendation 1.10a.

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- 1.11 UA should continue to implement its process to better account for and review class fee revenues and expenses.

Implementation in process

UA has continued to implement its process to better account for and review class fee revenues and expenses by creating separate accounts for all class fees with annual revenues over \$5,000 and using combined accounts with subaccounts and project codes for class fees that generate less than \$5,000 annually. However, UA has only needed to create one new fee account since the audit. Auditors will further assess UA's process during the 18-month follow-up.

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- 1.12 If ABOR determines administrative costs are an allowable use of class fee revenues, UA should revise its class fee policies and procedures to indicate that class fee revenues will be spent on administrative costs.

Implemented at 6 months

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- 1.13 UA should continue to implement its fee-setting procedures for considering cumulative impact when establishing class fees, and it should develop and implement written policies, procedures, or other guidance for considering cumulative impact when establishing differential tuition/program fees and mandatory fees.

Implementation in process

As of April 2018, ABOR requires the universities to include information about other required fees that students may potentially pay when proposing new differential tuition, program fees, and class fees or increases to existing fees. UA provided this information in the fee proposals it submitted to ABOR for the 2018-2019 academic year. UA reported it will develop written policies and procedures for reporting this information once ABOR finalizes revisions to its fee-setting policies.