



A REPORT  
TO THE  
ARIZONA LEGISLATURE

Performance Audit Division

---

Sunset Review

# Arizona Board of Regents—

## Sunset Factors

---

September • 2011  
REPORT NO. 11-12



**Debra K. Davenport**  
Auditor General

The **Auditor General** is appointed by the Joint Legislative Audit Committee, a bipartisan committee composed of five senators and five representatives. Her mission is to provide independent and impartial information and specific recommendations to improve the operations of state and local government entities. To this end, she provides financial audits and accounting services to the State and political subdivisions, investigates possible misuse of public monies, and conducts performance audits of school districts, state agencies, and the programs they administer.

## The Joint Legislative Audit Committee

---

Senator **Rick Murphy**, Chair

Representative **Carl Seel**, Vice Chair

Senator **Andy Biggs**

Representative **Eric Meyer**

Senator **Olivia Cajero Bedford**

Representative **Justin Olson**

Senator **Rich Crandall**

Representative **Bob Robson**

Senator **Kyrsten Sinema**

Representative **Anna Tovar**

Senator **Russell Pearce** (*ex officio*)

Representative **Andy Tobin** (*ex officio*)

## Audit Staff

---

**Dale Chapman**, Director

**Shan Hays**, Manager and Contact Person

**Rose Tarbell**

Copies of the Auditor General's reports are free.  
You may request them by contacting us at:

### **Office of the Auditor General**

**2910 N. 44th Street, Suite 410 • Phoenix, AZ 85018 • (602) 553-0333**

Additionally, many of our reports can be found in electronic format at:

**[www.azauditor.gov](http://www.azauditor.gov)**



**DEBRA K. DAVENPORT, CPA**  
AUDITOR GENERAL

**STATE OF ARIZONA**  
OFFICE OF THE  
**AUDITOR GENERAL**

**MELANIE M. CHESNEY**  
DEPUTY AUDITOR GENERAL

September 28, 2011

Members of the Arizona Legislature

The Honorable Janice K. Brewer, Governor

Mr. Fred DuVal, Chair  
Arizona Board of Regents

Dr. Tom Anderes, President  
Arizona Board of Regents

Transmitted herewith is a report of the Auditor General, *A Sunset Review of the Arizona Board of Regents*. This report is in response to a November 3, 2009, resolution of the Joint Legislative Audit Committee and was conducted as part of the sunset review process prescribed in Arizona Revised Statutes §41-2951 et seq.

This report does not contain recommendations. Therefore, the Arizona Board of Regents has chosen not to provide a response to the report.

My staff and I will be pleased to discuss or clarify items in the report.

This report will be released to the public on September 29, 2011.

Sincerely,

Debbie Davenport  
Auditor General

Attachment

cc: Arizona Board of Regents Members

# TABLE OF CONTENTS



Introduction	1
Sunset Factors	7
Appendix A: Methodology	a-i
Table	
1 Schedule of Revenues, Expenditures, and Changes in Fund Balance for the Governance Program Fiscal Years 2009 through 2011 (In Thousands) (Unaudited)	5
	• concluded

# INTRODUCTION

## Scope and Objectives

The Office of the Auditor General has conducted a sunset review of the Arizona Board of Regents (Board) pursuant to a November 3, 2009, resolution of the Joint Legislative Audit Committee. This audit was conducted as part of the sunset review process prescribed in Arizona Revised Statutes (A.R.S.) §41-2951 et seq.

This report includes responses to the sunset factors specified in A.R.S. §41-2954 and is the second of two reports on the Board. The first report was a questions-and-answers document on the Board's tuition-setting practices for Arizona universities.

# Board oversees state universities

## Responsibilities

The Board is responsible for governing the State's university system comprising Arizona State University (ASU), Northern Arizona University (NAU), and the University of Arizona (UA) (see textbox). Article XI, §5 of the Arizona Constitution created the Board, and statutes provide it with general authority to supervise and perform various other activities related to the State's universities.

### Arizona University System

University	Main campus/other campuses	Spring 2011 enrollment <sup>1</sup>
ASU	Tempe/ASU West, ASU Downtown, ASU Polytechnic	65,295
NAU	Flagstaff/34 state-wide locations including Yuma and Yavapai	21,080
UA	Tucson/Phoenix (College of Medicine), 5 southern Arizona locations including Sierra Vista and Nogales	<u>35,075</u>
<b>Total</b>		<u>121,450</u>

<sup>1</sup> Enrollment numbers refer to the number of full-time equivalent students.

Source: Auditor General staff analysis of the *Spring 2011 Enrollment Report for the Arizona University System*, and university campus locations obtained from their Web sites.

A.R.S. §15-1626 establishes the Board's specific powers and duties. Under this authority, the Board's responsibilities include:

- Setting tuition rates and admission requirements (see Report No. 11-11, Question 2, for information on tuition setting);
- Establishing curricula and designating courses that will best serve the interests of the State;
- Establishing policy initiatives for the universities, such as implementing personnel policies related to faculty tenure and research;

- Providing oversight for some university operations, such as reviewing requests for capital improvements projects and operating budgets;
- Administering the Technology and Research Initiative Fund, which in fiscal year 2010, awarded monies for various initiatives such as research in biosciences, sustainability and renewable energy, and optical sciences; the UA College of Medicine in Phoenix; and preparing math and science teachers and health care workers; and
- Overseeing Arizona's participation in the Professional Student Exchange Program of the Western Interstate Commission for Higher Education, which allows a limited number of Arizona students to enroll in one of six programs available in participating states or in-state private institutions.<sup>1</sup> The student pays a reduced tuition rate, and the State of Arizona pays a fee to the participating university to help cover the cost of the student.

In addition, the Board has made provisions for student financial aid, reducing the average cost of tuition for students receiving aid. For example, the Board established the financial aid set-aside program, which requires that a portion of tuition revenue be used as financial aid. In fiscal year 2010, a total of 31,153 students received financial aid through this program.<sup>2</sup> The Board also created the Regents High Honors Endorsement Scholarship for high school students with high academic achievement as demonstrated through Arizona Instrument to Measure Standards (AIMS) test scores and academic performance. In fiscal year 2010, a total of 3,815 students received this scholarship. However, in September 2010, the Board revised the criteria and award amount effective for students entering the universities in Fall 2013. Specifically, high school students graduating in 2013 and beyond must submit additional test scores from either the ACT or SAT1 tests.<sup>3</sup> In addition, students will receive a scholarship amount equivalent to only 25 percent of in-state tuition. Students who graduate high school through 2012 continue to be eligible for a full scholarship under the current criteria based on competency courses, grade point average, and AIMS test scores. (See Report No. 11-11, Question 5, for additional information on financial aid.)

## Mission

The Board's mission is to increase the educational attainment of Arizona citizens by producing enough high-quality university degrees for the State to be nationally

---

<sup>1</sup> Programs include dentistry, occupational therapy, optometry, osteopathy, physician assistant, and veterinary science. The following states participate in the exchange program: Alaska, Arizona, California, Colorado, Hawaii, Idaho, Montana, Nevada, New Mexico, North Dakota, Oregon, South Dakota, Utah, Washington, and Wyoming.

<sup>2</sup> This number includes undergraduate, graduate, and professional students.

<sup>3</sup> Students must score at least a 28 on the ACT test, or a 1300 on the SAT1, which includes critical reading and math.

competitive by the year 2020; to increase the prominence of the system's research enterprise so that it can make a greater contribution to the knowledge economy and improve the quality of life in Arizona; and to provide the educated workforce needed to fill shortages and to stimulate demand for higher-paying jobs in Arizona.

To accomplish this mission, the Board has established a long-term *Arizona Higher Education Enterprise Plan* (enterprise plan) that provides key standards and annual targets against which the universities can measure educational and research outcomes. In 2010, the Board asked the Council of Presidents to conduct a realignment effort within the universities to create better education and research opportunities (see textbox). The enterprise plan, approved by the Board in September 2010, envisions the university system as an enterprise comprising three differentiated universities working to achieve system-wide goals. The enterprise plan establishes the Council of Presidents as an enterprise executive committee.

### Council of Presidents

The Board established the Council of Presidents, which comprises the presidents of the three state universities and the board president. According to the Board, the Council of Presidents works on assignments made by the Board, and provides university-level information and methods for goal attainment to the Board.

Source: Auditor General staff review of information obtained from the Board and its Web site.

Consistent with the universities' transition to an outcome-based enterprise model, the Board is developing recommendations for a new performance-based funding model for the universities. In Laws 2011, Ch. 30, §10, the Legislature expressed its intent that the Board and the universities collaborate and recommend a funding structure that includes performance and outcome-based funding, a student-centered financial aid model, and a method that addresses the issue of per-student funding disparities among the three universities in their fiscal year 2013 budget submittals. In July 2011, the Board released a consultant's report with recommendations for implementing performance-based funding.<sup>1</sup> This report includes recommendations for three performance funding components: increases in the number of degrees produced, increases in completed student credit hours, and increases in outside funding for research and public service. The Board conducted a preliminary review of the report at its June 2011 meeting and, according to the Board, it gave final approval to the report's recommendations in August 2011. In its September 2011 meeting, the Board plans to address incorporating the report's recommendations into the universities' legislative decision packages, which are part of the university system's fiscal year 2013 budget request.

## Organization and staffing

The Board has 12 members, including the Governor and the Superintendent of Public Instruction who serve as ex-officio members. The Governor appoints the remaining

<sup>1</sup> MGT of America. (2011). *Getting AHEAD—Access to higher education and degrees*. Unpublished manuscript.

members, including 2 student representatives. A.R.S. §15-1621 requires the Governor to appoint at least two board members who reside outside Maricopa and Pima Counties—one from a northern county and one from a southern county. Statute does not impose any other requirements regarding the appointment of board members. With the exception of the student representatives, each appointed member of the Board serves an 8-year term. The student representatives serve 2-year terms. During the first year of the 2-year term, a student representative is a nonvoting member, but may vote during the second term. Student representation rotates among the three universities.

The Board has 25.9 approved full-time equivalent positions. According to a board official, as of June 2011, the Board had a total of 25 staff including the board president, vice presidents, assistant and associate vice presidents, legal counsel, and other staff.

In addition to its staff, the Board has established the Council of Presidents, which was previously discussed, and several other committees composed of board members appointed by the Board's Chair. These committees assist the Board in such areas as strategic planning, board policy evaluation, and university system oversight.

## Budget

As shown in Table 1 (see page 5), the Board received approximately \$6.2 million in revenues for its governance program in fiscal year 2011, including nearly \$2.4 million in State General Fund appropriations.<sup>1</sup> The Board also received approximately \$1.9 million from the universities to support the Board's central office. The Board also oversees and awards grants for the Technology and Research Initiative Fund (TRIF). To fund the Board's role in TRIF, it receives a portion of the 0.6 percent sales tax passed by voters in November 2000 under Proposition 301. The Board spent approximately \$5.1 million in fiscal year 2011, with nearly \$3.3 million of this amount spent for staffing and related benefits.

---

<sup>1</sup> In addition to monies for the governance program, the Board receives special line item monies for several educational programs including subsidies for students participating in the Western Interstate Commission on Higher Education professional student exchange program and monies provided to match financial aid tuition surcharges collected from university students. These monies totaled approximately \$18.6 million in fiscal year 2010, according to the Joint Legislative Budget Committee's *Fiscal Year 2012 Appropriations Report*.



Table 1: Schedule of Revenues, Expenditures, and Changes in Fund Balance for the Governance Program<sup>1</sup>  
Fiscal Years 2009 through 2011  
(In Thousands)  
(Unaudited)

	2009	2010	2011
Revenues:			
State General Fund appropriations	\$ 2,444	\$ 2,473	\$ 2,373
Funding from state universities <sup>2</sup>	1,337	1,337	1,894
Share of state sales tax—technology and research initiative funding <sup>3</sup>	1,876	925	1,019
Intergovernmental	238	281	149
Private gifts, grants, and contracts	150	191	781
Total revenues	<u>6,045</u>	<u>5,207</u>	<u>6,216</u>
Expenditures and transfers to the State General Fund:			
Personal services and related benefits	3,087	3,483	3,260
Professional and outside services	694	968	923
Travel	96	102	92
Aid to organizations <sup>4</sup>	1,320	587	268
Other operating	450	626	539
Equipment	35	13	25
Total expenditures	<u>5,682</u>	<u>5,779</u>	<u>5,107</u>
Transfers to the State General Fund <sup>5</sup>		230	270
Total expenditures and transfers to the State General Fund	<u>5,682</u>	<u>6,009</u>	<u>5,377</u>
Net change in fund balance	363	(802)	839
Fund balance, beginning of year	1,438	1,801	999
Fund balance, end of year <sup>6</sup>	<u>\$ 1,801</u>	<u>\$ 999</u>	<u>\$ 1,838</u>

<sup>1</sup> The table includes all financial activity related to the Board's governance program. It does not include financial activity of the universities' land-related trust accounts. In addition, the table excludes other monies the Board receives and distributes to the universities and the Western Interstate Commission for Higher Education in accordance with laws and regulations. For example, the Board is responsible for overseeing and distributing the Technology and Research Initiative Fund (TRIF) monies. Only the TRIF monies spent by the Board, including grants awarded by the Board, were included in this table and the monies distributed to and spent by the universities were not included.

<sup>2</sup> Amounts are received from the universities to help support the Board's central office.

<sup>3</sup> Amounts are the portion of the 0.6 percent sales tax passed by the voters in November 2000 (Proposition 301) that the Board received for its role in overseeing and awarding grants for the TRIF monies.

<sup>4</sup> Amounts are grants to organizations for the TRIF and Making Opportunities Affordable (MOA), a program funded by the Lumina Foundation.

<sup>5</sup> Amount consists of transfers to the State General Fund in accordance with Laws 2009, Ch. 11, §110 and Laws 2010, 7th S.S., Ch. 1, §148, and Ch. 3, §7.

<sup>6</sup> According to the Board, the ending fund balance each year primarily comprises monies that are restricted to specific uses such as awarding grants for the TRIF and MOA programs.

Source: Auditor General staff analysis of board-provided financial information for fiscal years 2009 through 2011.



## Sunset Factors

In accordance with Arizona Revised Statutes (A.R.S.) §41-2954, the Legislature should consider the factors included in this report in determining whether the Arizona Board of Regents (Board) should be continued or terminated.

Auditors' analysis of the sunset factors found strong performance by the Board with regard to many of these factors. Auditors identified one improvement the Board could make related to documenting complaint receipt and resolution, which the Board addressed during the audit.

## Sunset factor analysis

1. **The objective and purpose in establishing the Board and the extent to which the objective and purpose are met by private enterprises in other states.**

The Board is charged with the responsibility of governing the State's university system comprising Arizona State University (ASU), Northern Arizona University (NAU), and the University of Arizona (UA). The Arizona Constitution created the Board, and the Legislature vests general authority in the Board to supervise and control the State's universities. A.R.S. §15-1626 establishes the Board's administrative powers and duties, which include overseeing the universities' operating budgets, making planning and policy decisions regarding the State's three universities, and setting tuition rates and admission requirements for the universities. The Board also reviews and establishes curriculums and designates courses that will best serve the interests of the State.

Governing structures of state university systems vary from state to state and are not performed by private enterprises. According to a 2003 report that reviewed post-secondary governance models, most states have either governing boards or coordinating boards, while four states have limited or no state-wide formal governing or coordinating authority.<sup>1</sup> Two of the four states without central governance, Delaware and Michigan, have separate governing bodies for each institution, while Minnesota has separate governing bodies for the University of Minnesota and the Minnesota State Colleges and Universities, and Pennsylvania has a more complex system with some multi-institution and some single-institution governing boards.

2. **The extent to which the Board has met its statutory objective and purpose and the efficiency with which it has operated.**

The Board has generally met its statutory purpose of overseeing the university system, and it has taken steps to improve its efficiency in doing so.

- **Board initiative provides specific goals for the universities**—In 2010, the Board began development of the *Arizona Higher Education Enterprise Plan* (enterprise plan), which provides key standards and annual targets against which the universities can measure educational

<sup>1</sup> McGuinness, A. (2003). *Models of postsecondary education coordination and governance in the states*. Denver, CO: Education Commission of the States.

and research outcomes. The Board approved the enterprise plan in September 2010, and its standards and targets are used by all three universities in constructing their 5-year strategic plans. The Board has established the Council of Presidents as the Enterprise Executive Committee, which is responsible for the plan's outcomes. According to the Board, the universities must present annual reports to the Board demonstrating their progress in meeting the enterprise plan's goals. The enterprise plan's goals, to be achieved by 2020, are in line with the Board's statutory purpose and include:

- **Educational excellence and access**—Progress indicators include the number of bachelor's degrees awarded, the number of community college transfer students who earn bachelor's degrees, and the actual cost of attendance as a percentage of Arizona median family income.
- **Research excellence**—Progress indicators include total research expenditures, doctoral degrees awarded, and numbers of invention disclosures made and patents issued.
- **Workforce and community**—Progress indicators include the number of university degrees awarded in high-demand fields, the number of new companies started, and the diversity of graduates.
- **Productivity**—Progress indicators include the number of degrees awarded per 100 full-time equivalent students, tuition compared to peer institutions, the number of online degrees awarded, and employment of graduates.
- **Board initiated a performance assessment to improve its effectiveness**—  
In 2007, the Board hired a consulting firm to assess its roles and responsibilities, operations and structures, and overall effectiveness. In the report, the consultants provided recommendations in several areas, including better defining the Board's roles and responsibilities, making better use of board meeting time, improving collaboration among the universities, strengthening capital project procedures, and improving the quality of data used to inform policy decisions.<sup>1</sup> The Board has either implemented or made progress in implementing almost all of this report's recommendations, including:
  - **Developing a comprehensive university president evaluation system**—The Board has instituted a Governance Committee, which has recommended periodic evaluations of university presidents at least once during each president's term. These evaluations are also to

---

<sup>1</sup> Pappas Consulting Group, Inc. (2007). *Performance assessment of the Arizona Board of Regents*. Unpublished manuscript.

be tied to the goals in the enterprise plan. In addition, the Board provides feedback and discusses presidential goals during board meetings.

- **Providing for continuity of board leadership by making the Board's chair a 2-year term and not basing it on seniority**—The Board changed its bylaws to allow a chair to be elected to two consecutive 1-year terms with an option to be elected again after at least one year of not being board chair. According to the Board, prior to this change, the chair was elected to a 1-year term based on seniority among board members.
- **Establishing an initiative to ensure that the quality and number of teachers produced at the universities meet the State's needs**—The Board has established priorities for graduating students in three areas, including education. The June 2011 board meeting established goals for the year 2020 for the number of graduates in this area, and the universities will be responsible for meeting these goals.
- **Board appoints and determines compensation for university presidents**—The Board has also met its statutory obligation to appoint and determine compensation for university presidents. For example, during the June 2011 board meeting, board members met to discuss and ultimately approve the contract extension of ASU President Michael Crow. In addition, the Board acted quickly to appoint an interim UA president to replace exiting president Robert Shelton while it conducts a search for a permanent president.
- **Board has established its tuition-setting process in board policy**—As required by statute, the Board requires public disclosure by each university president of any proposed increases in tuition and fees, publishes a notice of the public hearings, and conducts at least one public hearing at each university prior to setting tuition. Board policy governs the tuition-setting process, and in April 2011, the Board updated its policies outlining a series of factors that it will consider during the tuition-setting process. These include:
  - The amount of state support provided to the universities;
  - Availability of student financial aid; and
  - The median of tuition and mandatory fees charged by peer universities.

These policies are available to the public on the Board's Web site. (See Report No. 11-11, Question 2, for additional information.)

**3. The extent to which the Board serves the entire State rather than specific interests.**

The Board demonstrates a commitment to serving the entire State. To help accomplish this, A.R.S. §15-1621 requires the Governor to appoint at least two board members who reside outside Maricopa and Pima Counties—one from a northern county and one from a southern county.

Through its oversight of the universities, the Board also helps to serve students and communities across the State. Specifically:

- **Board has partnered with universities to help provide satellite campuses, and online classes and programs**—Arizona’s universities offer educational opportunities through satellite campuses and online programs state-wide. Specifically, NAU has 34 extended campuses including regional campuses in Yuma and Yavapai Counties and an online program that offers degrees in fields including administration, education, and health sciences. UA has a campus in Sierra Vista as well as outreach programs in Pinal, Santa Cruz, and Yuma Counties where students can complete degree programs such as family studies and human development, and optical sciences. Similarly, according to a university official, in addition to its Downtown, Polytechnic, and West campuses, ASU is planning Colleges@ASU, a low-cost option focused on high-demand undergraduate degrees, with the first courses scheduled to be offered in Lake Havasu and then Payson.
- **Board helps community college students transfer to universities**—The Board is working to increase the number of community college transfer students awarded bachelor’s degrees and the universities have programs to assist community college students across the State to transfer to the universities. For example, the Arizona General Education Curriculum is a 35-credit-hour program for students attending an Arizona community college or one of the two tribal colleges. This program satisfies the lower division general education requirements for the three universities and guarantees admission to one of the State’s three universities if the student has at least a 2.5 grade point average. The Maricopa to ASU Pathways Program (MAPP) has been designed for students who want to start their college studies at a Maricopa community college but complete a bachelor’s degree at ASU. Students in this program are guaranteed admission to several ASU degree programs and all of their MAPP courses transfer and apply to an ASU degree. ASU’s Transfer Admission Guarantee program (TAG) provides similar benefits to the MAPP program; however, TAG programs extend beyond Maricopa County to all state community colleges, such as Coconino and Gila Community Colleges. Similarly, the UA Program for Joint Admission allows Pima Community College students to integrate

community college courses into their UA degree programs, and enroll at UA without a readmission application. Finally, NAU partners with a variety of community colleges in Arizona to provide 2NAU, a program that allows students to be admitted to NAU while completing their associate's degree at a community college.

- **Financial assistance available to students**—Financial aid assistance is available to students throughout the State. Scholarships, grants, loans, and employment opportunities are all types of aid available to students. For example:
  - The Arizona Financial Aid Trust is funded by annual contributions of 1 percent of resident undergraduate tuition revenues paid by all students. A.R.S. §15-1642(C) requires that every \$1 paid by students is matched by \$2 in state monies. However, for each of fiscal years 2009 through 2012, the Legislature has modified this requirement by allowing every \$1 paid by students to be matched by less than \$2 in state monies. For fiscal years 2009 through 2012, the Legislature has appropriated approximately \$10 million per year in state monies to the Trust, the same amount as for fiscal year 2008.
  - The Regents High Honors Endorsement Tuition Scholarship provides Arizona high school students a tuition scholarship to any of the State's universities for outstanding academic achievement, demonstrated through Arizona Instrument to Measure Standards (AIMS) test scores and academic performance. However, in September 2010, the Board revised the criteria and award amount effective for students entering the universities in fall 2013. Specifically, high school students graduating in 2013 and beyond must submit additional test scores from either the ACT or SAT1 tests.<sup>1</sup> In addition, students will receive a scholarship amount equivalent to only 25 percent of in-state tuition. Students who graduate high school through 2012 continue to be eligible for a full scholarship under the current criteria based on competency courses, grade point average, and AIMS test scores.

According to a board document, in fiscal year 2010, more than 109,000 students received about \$1.5 billion in financial aid.<sup>2,3</sup>

In addition, the Board's financial aid set-aside program requires that a formula-determined portion of tuition revenue be used for financial aid. In academic year 2010-2011, the program set aside a total of approximately

---

<sup>1</sup> Students must score at least a 28 on the ACT test, or a 1300 on the SAT1, which includes critical reading and math.

<sup>2</sup> *Student Financial Aid Report FY 2010 and Student Financial Aid Plans FY2011 and FY2012* appended to the Academic Affairs Committee meeting minutes dated December 8, 2010.

<sup>3</sup> This number includes undergraduate, graduate, and professional students.

\$73.1 million at ASU, \$18.2 million at NAU, and \$32.4 million at UA for financial aid. Some other states, including Utah and Texas, have implemented tuition-supported financial aid programs as well. (See Report No. 11-11, Question 4, for additional information on financial aid.)

- **University programs also directly impact Arizona communities**—The Arizona Cooperative Extension program provided through UA is a state-wide network of faculty and staff that provides educational programs for all Arizonans in the fields of agriculture, family and health sciences; and community, economic, and 4-H youth development. For example, the Financial Management Program within the Extension program helps develop economic opportunities and improve quality of life for Arizonans by providing citizens with mechanisms to improve spending habits and manage and reduce debt.

**4. The extent to which rules adopted by the Board are consistent with the legislative mandate.**

A.R.S. §41-1005(D) exempts the Board from review of its rules by the Governor's Regulatory Review Council, but statute requires the Board to make rules or policies, which it has in its Board Policy Manual. General Counsel for the Auditor General has reviewed the Board Policy Manual and believes the Board's rules and policies are generally consistent with legislative requirements.

**5. The extent to which the Board has encouraged input from the public before adopting its rules and the extent to which it has informed the public as to its actions and their expected impact on the public.**

The Board allows for public input prior to promulgating new rules or changing existing rules. In accordance with the Board's Policy Manual, the Board informs the public of a new rule or rule change through its board meeting agendas. A proposed rule is first presented at one meeting and no action is taken on the rule until the following meeting. Between the two meetings, the public has an opportunity to provide input. The public can provide written input on any proposed rule within 20 days after the meeting in which the proposed rule was presented. The policy also allows the Board to authorize a separate proceeding for the purpose of obtaining oral comment on the proposed rule.

In addition, as required by A.R.S. §15-1626(A)(6), the Board conducts public hearings to allow students and the public to address proposed increases in tuition and fees. Specifically, auditors observed the Board's March 28, 2011, meeting where it heard testimony and public comment regarding changes to tuition rates proposed by the universities. This meeting was broadcast via video conferencing to each university and over the Internet, enabling the public to attend the meeting at one of the university sites or view the proceedings online. As a result, the public was able to voice their opinions about proposed changes



in tuition and fees. (See Auditor General Report No. 11-11, Question 2, for additional information on tuition setting.)

Further, the Board's Web site provides information about the Board and board meetings, access to board rules in the Board Policy Manual, schedules and agendas for upcoming and past board meetings, and Web streaming access to board meetings live and for 90 days after the meeting. The Web site also provides news releases and links to news articles detailing board activities and other happenings.

Finally, in compliance with Arizona's open meeting law, the Board posts notices of public meetings at least 24 hours in advance at the Board's office and on its Web site. In addition, as required in board policy, board meetings are held at all three universities throughout the State, with at least one regular board meeting held at each university during the fiscal year.

**6. The extent to which the Board has been able to investigate and resolve complaints that are within its jurisdiction.**

The Board is not a regulatory board, but it receives some complaints by phone, mail, and e-mail, as well as comments made during the call to the public portion of its board meetings. According to board staff, complaints are forwarded to the staff person most qualified to address the complaint. Some complaints received by the Board are forwarded directly to the most appropriate personnel at one of the three universities. For example, the Board has forwarded complaints to the universities about tuition guarantees and freshman student living arrangements.

The Board has also developed a complaint-tracking database that it has used since March 1, 2011, which replaced a paper-based system it previously used to log and track its complaints. As of June 9, 2011, there were 22 complaints logged into the database. However, not all complaints received by the Board were recorded in the database, and staff did not maintain a record of each complaint. Board staff reported that they are continuing to revise the database to best meet their needs, and during the course of this audit, the Board developed written protocols to document complaints received and their resolutions.

**7. The extent to which the Attorney General or any other applicable agency of state government has the authority to prosecute actions under the enabling legislation.**

Although the Board is not a regulatory agency, it retains legal counsel with expertise in higher education. A.R.S. §15-1626(A)(12) authorizes the Board to retain counsel separate from the Attorney General's Office. However, the Board may use attorney general representation to defend the university system against liability claims.

**8. The extent to which the Board has addressed deficiencies in its enabling statutes that prevent it from fulfilling its statutory mandate.**

Although the Board's enabling statutes appear comprehensive, the Board has initiated and/or supported legislation to improve its ability to meet its goals and objectives. For example:

- In 2003, the Legislature added A.R.S. §15-1670 to assist the universities in expanding their research infrastructure. Specifically, the law states that the Legislature intends to appropriate \$34.6 million in State General Fund monies annually from fiscal year 2008 through fiscal year 2031 to pay for research infrastructure projects at the three universities. These projects are financed through lease-purchase agreements entered into before July 1, 2006. A June 2008 Office of the Auditor General report on the universities' capital project financing reported on 13 research infrastructure projects, including a Medical Research Building at UA, an Applied Research and Development Facility at NAU, and a Biodesign Institute Building at ASU (see Auditor General Report No. 08-03). According to board management, all of the projects have been completed as of April 2009. For fiscal years 2008 through 2012, the Legislature appropriated the amounts identified in statute for this purpose.
- In 2008, the Legislature added A.R.S. §15-1682.03 to establish the University Capital Improvement Lease-to-Own and Bond Fund, allowing the Board to issue bonds totaling up to \$1 billion, which will be repaid from revenues from the Arizona State Lottery. The state university system will also contribute at least 20 percent to the annual payments of the lease-to-own and bond agreements. The purpose of the Fund is to assist the universities with building projects including construction of the Phoenix Biomedical Campus. However, in 2009, the statute was amended, reducing the total amount of state lottery revenues made available to the Board for the remaining bond agreements to \$800 million beginning in fiscal year 2012. According to board management, the universities have already completed some building projects with these funds.

**9. The extent to which changes are necessary in the laws of the Board to adequately comply with the factors in the sunset law.**

This audit did not identify any needed changes to board statutes.

**10. The extent to which the termination of the Board would significantly affect the public's health, safety, or welfare.**

Because the Arizona Constitution established the Board, it cannot be terminated through the sunset process. A majority vote of the people would be required to amend the Constitution to terminate the Board. However, if the Board were

terminated, there would be no governing body to set policy and oversee the programmatic and fiscal areas of the Arizona university system. For example, there would be no consistent tuition-setting process for the universities. The tuition-setting process is governed by the Board, and the three universities develop and present tuition proposals to the Board for its review and approval. The Board's process also requires each university to consult with students before requesting any tuition or fee increase. In addition, the Board strongly believes that having no state-wide perspective would encourage redundancy and duplication of programs, and result in higher costs to provide the same level of education.

**11. The extent to which the level of regulation exercised by the Board compares to other states and is appropriate and whether less or more stringent levels of regulation would be appropriate.**

This factor does not apply because the Board is not a regulatory agency.

**12. The extent to which the Board has used private contractors in the performance of its duties as compared to other states and how more effective use of private contractors could be accomplished.**

The Board uses private contractors to provide specialized service and expertise in several areas. For example, the Board has used search firms to assist it in hiring the board president and it plans to use a search firm to help fill the vacant UA president position. According to the Board, it also uses private contractors to provide an independent perspective or advice on business or legal matters, and to supplement expertise available from the Board or universities. For example, the Board contracted with a consulting group to conduct a performance assessment of its roles, responsibilities, operations, structure, and overall effectiveness. The consultant issued its report in June 2007. In fiscal year 2011, the Board contracted with a nationally recognized authority on critical issues in higher education, who met with the Board regarding its enterprise plan for the university system and approaches for managing costs for the universities and their students.

Auditors contacted three public university governing boards and found that these boards contract for some similar services as the Board.<sup>1</sup> For example, all boards reported contracting with a search firm to assist in hiring university presidents, as well as contracting for specialized legal counsel that could not be fulfilled by in-house counsel or their respective attorney generals' offices. However, all three other state boards reported some different contracting practices from the Board. For example, none of the contacted states contract for a news-clipping service. However, the Board contracts for this service, at a cost of \$500 per month, which provides information to the Board on all Arizona university news available in the

<sup>1</sup> Auditors contacted officials at the board of regents for higher education systems in Colorado, Iowa, and Wisconsin to obtain information about their contracting practices. Colorado and Wisconsin were identified by the Board as peer systems, and auditors identified Iowa as having a governing board similar to Arizona's.

media. None of the three boards reported contracting for board functions, such as tuition setting or financial aid planning.

This audit did not identify any additional opportunities for the Board to contract for services.

## APPENDIX A

## Methodology

This appendix provides information on the methods auditors used to meet the audit objectives.

This performance audit was conducted in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient appropriate evidence to provide reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The Auditor General and staff express appreciation to the members of the Arizona Board of Regents (Board) and its President and staff for their cooperation and assistance throughout the audit.

The Board's performance was analyzed in accordance with the statutory sunset factors. Auditors interviewed board management and staff; and reviewed prior Auditor General audit reports including a report on the Board's tuition-setting process (Report No. 11-11), a board procedural review letter (2005), and internal control and compliance reports for the universities (2010); the *Fiscal Years 2010-2013 Master List of State Government Programs*; the Arizona Constitution; applicable board statutes; the Board's Web site and policy manual; and other board-provided documents.

To develop budget information, auditors compiled and analyzed fiscal year 2009 through 2011 financial information received from the Board. To determine the reasonableness of this information, auditors performed limited analysis by comparing the board-provided financial information to the Arizona Financial Information System (AFIS) *Accounting Event Transaction File* for fiscal years 2009 through 2010, and the AFIS Management Information System *Status of General Ledger—Trial Balance* screen for fiscal years 2009 through 2010.

To gather information for the Sunset Factors, auditors observed five board meetings for December 2010, February through April 2011, and June 2011, as well as executive sessions, and some committee meetings including audit, capital and project finance, and governance committees; and reviewed meeting minutes, agendas, and documents provided for board meetings from September 2010 through June 2011. Auditors also reviewed policies containing rules for board operations, board documents including strategic plans created from 2001 through 2010, a 2007 board-contracted review by a consulting firm, a list of board contracts, and documents related to tuition setting and financial aid.<sup>1</sup> In addition, auditors reviewed the Board's complaint-handling process, including its database for logging complaints plus some filed complaints; the state universities' Web sites to document online degree programs and university outreach efforts; and an Education Commission of the States report.<sup>2</sup> Finally, auditors also contacted the boards of regents for higher education systems in the states of Colorado, Wisconsin, and Iowa to obtain information about their contracting practices.<sup>3</sup>

<sup>1</sup> Pappas Consulting Group, Inc. (2007). *Performance assessment of the Arizona Board of Regents*. Unpublished manuscript.

<sup>2</sup> McGuinness, A. (2003). *Models of postsecondary education coordination and governance in the states*. Denver, CO: Education Commission of the States.

<sup>3</sup> Auditors contacted officials at the board of regents for higher education systems in the states of Colorado, Iowa, and Wisconsin. Colorado and Wisconsin were identified by the board as peer systems, and auditors identified Iowa as having a governing board similar to Arizona's.

## Performance Audit Division reports issued within the last 24 months

---

<b>09-09</b>	Arizona Department of Juvenile Corrections—Suicide Prevention and Violence and Abuse Reduction Efforts	<b>11-01</b>	Department of Public Safety—Followup on Specific Recommendations from Previous Audits and Sunset Factors
<b>09-10</b>	Arizona Department of Juvenile Corrections—Sunset Factors	<b>11-02</b>	Arizona State Board of Nursing
<b>09-11</b>	Department of Health Services—Sunset Factors	<b>11-03</b>	Arizona Department of Veterans' Services—Fiduciary Program
<b>10-01</b>	Office of Pest Management—Restructuring	<b>11-04</b>	Arizona Medical Board
<b>10-02</b>	Department of Public Safety—Photo Enforcement Program	<b>11-05</b>	Pinal County Transportation Excise Tax
<b>10-03</b>	Arizona State Lottery Commission and Arizona State Lottery	<b>11-06</b>	Arizona Department of Veterans' Services—Veteran Home
<b>10-04</b>	Department of Agriculture—Food Safety and Quality Assurance Inspection Programs	<b>11-07</b>	Department of Corrections—Oversight of Security Operations
<b>10-05</b>	Arizona Department of Housing	<b>11-08</b>	Department of Corrections—Sunset Factors
<b>10-06</b>	Board of Chiropractic Examiners	<b>11-09</b>	Arizona Department of Veterans' Services—Veterans' Donations and Military Family Relief Funds
<b>10-07</b>	Arizona Department of Agriculture—Sunset Factors	<b>11-10</b>	Arizona Department of Veterans' Services and Arizona Veterans' Service Advisory Commission—Sunset Factors
<b>10-08</b>	Department of Corrections—Prison Population Growth	<b>11-11</b>	Arizona Board of Regents—Tuition Setting for Arizona Universities
<b>10-L1</b>	Office of Pest Management—Regulation		
<b>10-09</b>	Arizona Sports and Tourism Authority		

## Future Performance Audit Division reports

---

Department of Fire, Building and Life Safety

