



January 18, 2018

Debra K. Davenport  
Auditor General  
2910 N. 44<sup>th</sup> Street  
Phoenix, AZ 85018

RE: Arizona Board of Regents' Response to the Arizona Auditor General's Report on Arizona's Universities Fee Setting Practices

Dear Ms. Davenport,

On behalf of the Arizona Board of Regents, I am pleased to respond to the audit report, *Arizona's Universities – Fee-Setting Processes*.

We appreciate this opportunity to outline steps the Arizona Board of Regents (ABOR) has taken in recent years and discuss future reforms that are underway to ensure fee setting is as transparent as possible.

### **ABOR Advances Reforms for Student Success, Increased Transparency**

Without a doubt, public higher education is an investment that pays dividends throughout an individual's lifetime, from increased wages to a better quality of life. In fact, Arizonans with an undergraduate degree earn a median wage that is approximately \$20,000 more each year than their peers with a high-school diploma, underscoring the value of our public universities - not only to our graduates, but to Arizona's overall workforce and economy.

Arizona's students and families know full well that state financial support of public higher education in Arizona has been dramatically reduced over the past decade, and that, in turn, prompted tuition increases. The board has worked hard to significantly slow tuition increases in the past several years while enhancing tuition predictability for students and families through tuition pledge and guarantee programs at our universities.

In keeping with the mandate of the Arizona Constitution -and knowing our students have their choice of universities we are keeping a sharp eye on our costs. It is paying off — today,

#### **REGENTS**

Chair Bill Ridenour, *Paradise Valley* • Ron Shoopman, *Tucson* • Ram Krishna, *Yuma* • Jay Heiler, *Paradise Valley*  
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**STUDENT REGENTS:** Vianney Careaga, *UA* • Aundrea DeGravina, *ASU*

**EX-OFFICIO:** Governor Doug Ducey • Superintendent of Public Instruction Diane Douglas

#### **ENTERPRISE EXECUTIVE COMMITTEE**

Board President Eileen I. Klein • ASU President Michael M. Crow • NAU President Rita Cheng • UA President Robert C. Robbins

our universities are ranked among the most affordable, efficient and cost-effective in the country with the cost to attend lower than peer institutions in other states.

Tuition and fee reforms are priorities for the board and have been for the past several years. As noted in the report, this pattern of reform and incorporating best practices also applies to fee setting. During recent years, ABOR took several steps to ensure the appropriateness of university fees and to provide students transparency into the fee setting process and fee amounts. Steps included:

- Including fee amounts in course catalogues;
- Developing and providing online price calculators;
- Reviewing the information required in fee setting applications;
- Clarifying policy expectations on which fees need ABOR approval;
- Clarifying fee use requirements;
- Improving fee revenue tracking mechanisms;
- Strengthening the internal audit function;
- Providing web streaming of public hearings on tuition and fee reform; and
- Developing student boards to review fee proposals.

In addition, ABOR restructured the process it uses to review tuition and fee proposals. As part of this new process, ABOR receives and reviews detailed explanations of fee proposals including budget information and holds a public-tuition and fee workshop during which tuition and fee proposals are carefully presented and reviewed.

As a result of these efforts and as noted by the Auditor General, ABOR employs many fee setting and management best practices.

### **ABOR is Continuously Implementing Additional Reforms**

The board is currently reviewing new reforms to improve transparency around the tuition and fee-setting process, and to ensure even more cost predictability for students and families. Additional policy reforms may include establishment of a fee sunset-review process; increasing transparency of the universities' fee development process; development of a summary/guide for students detailing the fee setting process and identifying key contact personnel. In 2014, the board rejected proposed policy changes that would have delegated more fee-setting authority to the presidents.

The recommendations from the Auditor General fit well within our continued efforts to continuously work to improve fee and tuition setting processes.

### **Response to Recommendations**

ABOR appreciates the recommendations made regarding fee setting at our universities. We recognize the exhaustive efforts made by the Auditor General to identify best practices in fee setting, including university and higher education organizations. As you have discovered, there is no set of industry standards particular to public universities. In every instance, we want to adhere to available best practices as we set our policies.

However, some best practices identified from other sources or sectors may not always be applicable. We have numerous legal and other obligations to consider in fee setting. Therefore, it is ultimately our policies that are the standard against which we expect our universities to operate.

In the report are six specific recommendations for ABOR. As noted in the body of the report, we agree with and will work to implement these recommendations. Each year the tuition and fee setting process begins in late January and concludes with the adoption of tuition and fees at the April board meeting. As a number of the audit's recommendations impact that process, ABOR will move as quickly as possible to incorporate those recommendations into this year's tuition and fee setting process as follows:

- Recommendation 1.1 asks ABOR to determine if the use of class fee revenues for central administrative purposes is appropriate. ABOR will address this question at the February 2018 board meeting.
- Recommendation 1.2 asks ABOR to clarify and expand the information collected and analyzed as part of a new fee proposal. This additional information will immediately be incorporated into the fee approval process.
- Recommendation 1.3 asks ABOR to clarify expectations for student input on fee proposals. ABOR will thoroughly review student input policies and adopt appropriate changes in the upcoming months.
- Recommendation 1.4 asks ABOR to establish a periodic review of university fee setting processes. While ABOR currently uses the internal audit process to review fee processes and practices, the board will consider expansions of its reviews including the potential establishment of a fee sunset process over the next several months.
- Recommendation 1.5 asks ABOR to clarify which fees need to be reviewed and approved by the board prior to implementation. ABOR will begin this process at the February 2018 board meeting.
- Recommendation 1.6 asks ABOR to consider other existing fees students must pay when establishing new fees. ABOR will immediately adjust its fee setting process to incorporate this information.

Four of the six recommendations will be implemented prior to setting tuition and fees for the 2018 – 2019 academic year. All of the recommendations will be in place before the 2019 – 2020 cycle. As we work through this process, if for some reason the precise implementation of the recommendation is not feasible or optimal, ABOR will work with your office to implement solutions that meet the spirit of the audit recommendation. The audit also provides a number of university specific recommendations, and ABOR will work with the universities to appropriately address these recommendations.

Finally, with the public higher education landscape nationally undergoing significant changes since the Great Recession, it is worth noting that the Auditor General last conducted university performance audits one decade ago. During this time the relationship between the state and ABOR has notably changed.

The recession forced the state to make major changes in its financing models, including a general divestment from the public universities. Ten years ago, the state funded more than 70 percent of the cost of education, today the state provides 34 percent. Overall, state support represents approximately 13 percent of total university revenue.

This change in relationship suggests the information and outcomes the state seeks through the performance audit process have also changed. After this performance audit cycle has concluded, we recommend a meeting with ABOR, your office and members of the Joint Legislative Audit Committee to discuss future audit goals and the best approaches to identify and obtain these goals to the satisfaction of all parties involved.

### **Conclusion**

We appreciate your office's review of our fee setting practices and look forward to ABOR's continual review of the tuition and fee setting process to ensure Arizona's public universities remain efficient and affordable for students.

We thank you for the professionalism of the audit team during the audit process and appreciate the team's insights and efforts to understand university financial structures, the role of fees within those financial structures, and the protocols used to ensure appropriate use of fee revenue.

We believe the report both reflects the depth and efficacy of our existing protocols and makes appropriate recommendations for improvement. On behalf of Arizona's students and families, the board will continue to strongly advocate for the State of Arizona to be an equal partner in the funding of public higher education for residents of our state.

Sincerely,

Eileen I. Klein  
President

January 17, 2018

Debbie Davenport  
Auditor General  
Office of the Auditor General  
2910 North 44<sup>th</sup> Street, Suite 410  
Phoenix, AZ 85018

Dear Ms. Davenport:

On behalf of Arizona State University (ASU), I am pleased to respond to the performance audit of Fee-Setting Processes at ASU. We are in agreement with all of your findings and our responses to your recommendations are enclosed. The report represents a thoughtful analysis of ASU's Fee-Setting processes.

My staff and I wish to thank you and your staff for the professional manner in which this audit was performed. We are continually looking for ways to improve our program and operations.

Sincerely,

Michael M. Crow  
President

Enclosure

cc: Mark Searle, Executive Vice President and University Provost  
Morgan R. Olsen, Executive Vice President and CFO

**Finding 1:** ASU has established some fee-setting processes consistent with best practices, but should further enhance its processes

**Recommendation 1.1 – 1.6:** Not applicable to ASU.

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

**Recommendation 1.7a:** 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;

ASU Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: Existing processes facilitate the tracking of expenditures against approved purposes, including instances where class fee revenue is combined. Accountability for the monitoring of class fee uses is decentralized to the departments and colleges at ASU with periodic central review of balances. While accountability will remain at the department or college level, the Provost Office will develop and implement minimum review procedures that must be performed and submitted to the Provost Office on a defined periodic basis. In addition, similar review procedures will be developed and implemented by the Provost Office to provide a secondary review and formalized governance at an enterprise level.

**Recommendation 1.7b:** 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

ASU Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: ASU considers the full impact of tuition and fees at multiple points during our internal processes. Departments consider the impacts of class fees and program fees as a part of covering the costs of instruction and academic support services. For example, as a part of proposing a program fee or differential tuition, multiple schools have eliminated class fees in parallel with the implementation of the program fee or differential tuition. ASU leadership considers the impacts of tuition and fees in total as a part of the process to determine the full set of proposals that will be submitted to ABOR each year, including tuition, mandatory fees, program fees and class fees. We agree that existing reporting could be further enhanced to provide improved systematic information to ASU leadership on all the costs each year and will do so.

**Recommendation 1.7c:** Conduct regular reviews of all student fees to determine if they are still necessary and set at appropriate rates.

ASU Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: Accountability for the monitoring of class fee uses is decentralized to the departments and colleges at ASU with periodic central review of balances. While accountability will remain at the department or college level, the Provost Office will develop and implement minimum review procedures that must be performed and submitted to the Provost Office on a defined periodic basis. Similar review procedures will also be developed and implemented by the Provost Office to provide a secondary review and formalized governance at an enterprise level. In addition, the ASU Audit and Advisory department is currently performing an internal audit over the use of class fees. This audit was requested by the ABOR Audit Committee as part of the FY 2018 Internal Audit Plan. Ongoing periodic assurance audits over fee-setting processes will also be performed.

**Recommendation 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.

ASU Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: As the report indicates, we believe that the use of funds for student-athlete recruitment was an allowable expense under the charter, based on discussions between student leadership and university administrators at the time the charter was developed. In addition, the 2015-2016 Council of Presidents, leaders of the ASU student government, reported that they conducted the required review of the Athletics Fee which resulted in no concerns noted related to the use of the fee revenue. We do agree that the charter could be clearer with respect to the use of funds for recruitment, and as part of the governance structure established by the charter; university administration will meet with student leadership in 2018 for the biennial review. We will update procedures to reflect the agreement reached with the students.

**Recommendation 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.

ASU Response: The finding of the Auditor General is agreed to and a different method of dealing with the finding will be implemented.

Response explanation: Class fees are established to offset costs that are necessary for the successful completion of the course objectives as defined by the academic unit offering the course and as approved by the Provost. On a per-class-fee basis, student input is not routinely solicited in setting these fees, as the fees are in support of the defined course objectives, which are not subject to student input. ASU does, of course, solicit and facilitate student input through elected student leadership on a wide range of topics, including among other things the annual setting of stated tuition and mandatory fees, the model for financing the university, and the financial aid model and process. As part of

ARIZONA STATE UNIVERSITY

Response to Auditor General's Report on Fee-Setting Processes

existing consultation processes with student leadership, we will review the overall purpose for and process of setting class fees. This process will not include soliciting student input on individual class fees, because as stated, class fees are in support of the defined course objective which is not subject to student input.

**Recommendation 1.10 – 1.13:** Not applicable to ASU.



January 17, 2018

Debra K. Davenport  
Auditor General  
2910 N. 44<sup>th</sup> Street  
Phoenix, AZ 85018

RE: Response to Auditor General's Report on Arizona's public universities' fee setting process

Dear Ms. Davenport:

This letter provides Northern Arizona University's response to the Audit Report on the universities' fee setting process.

NAU will work closely with the ABOR Office and Board of Regents to ensure that our policies and practices related to fees continue to be aligned with ABOR policies. NAU will review existing policies with a focus on continuing to enhance our practices to ensure transparency and accountability and further strengthen oversight.

While NAU's practices have followed current ABOR policies, efforts to identify areas for process improvements are not new. NAU has most recently worked to streamline the collection of data associated with fee requests using an electronic routing system and eliminated and reduced several hundred class fees over the past two years. NAU's practices already incorporate mechanisms as part of the overall tuition and fee setting process to review fee proposals to project and identify expected costs, incorporate student input and review the ongoing need of existing fees. NAU's Internal Audit department is currently completing a class fee audit this fiscal year per ABOR's Audit Committee request that forms part of the overall review framework of class fees. NAU will continue to engage in efforts such as these to drive process improvements and we appreciate the OAG feedback as another source of information in that regard.

**Finding 1:** NAU has established some fee-setting processes consistent with best practices, but should further enhance its processes

**Recommendation 1.1 – 1.9:** Not applicable to NAU.

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

**Recommendation 1.10a:** 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;

NAU Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: NAU's processes have followed ABOR policies and procedures and NAU will continue to align its policies and procedures with any changes that ABOR implements. To ensure this ongoing alignment, NAU will further enhance and document existing policy and procedures or develop new policies and procedures that are reasonable, practical and enforceable. |

**Recommendation 1.10b:** 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;

NAU Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: NAU's processes have followed ABOR policies and procedures and NAU will continue to align its policies and procedures with any changes that ABOR implements. To ensure this ongoing alignment, NAU will further enhance and document existing policy and procedures or develop new policies and procedures that are reasonable, practical and enforceable. |

**Recommendation 1.10c:** 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;

NAU Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: NAU's processes have followed ABOR policies and procedures and NAU will continue to align its policies and procedures with any changes that ABOR implements. To ensure this ongoing alignment, NAU will further enhance and document existing policy and procedures or develop new policies and procedures that are reasonable, practical and enforceable. |

**Recommendation 1.10d:** 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

NAU Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: NAU's processes have followed ABOR policies and procedures and NAU will continue to align its policies and procedures with any changes that ABOR implements. To ensure this ongoing alignment, NAU will further enhance and document existing policy and procedures or develop new policies and procedures that are reasonable, practical and enforceable. |

**Recommendation 1.10e:** 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.

NAU Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: NAU's processes have followed ABOR policies and procedures and NAU will continue to align its policies and procedures with any changes that ABOR implements. To ensure this ongoing alignment, NAU will further enhance and document existing policy and procedures or develop new policies and procedures that are reasonable, practical and enforceable. |

**Recommendation 1.11 – 1.13:** Not applicable to NAU.

Sincerely,

Rita Hartung Cheng  
President



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of the President

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January 17, 2018

Debra K. Davenport, CPA  
Auditor General  
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Phoenix, Arizona 86018

Dear Ms. Davenport,

I have reviewed the preliminary report of the *Arizona's Universities – Fee-Setting Processes* performance audit and appreciate the effort put in by your auditing team to not only conduct the audit, but to respond to the comments and suggestions provided by the University of Arizona (UA) throughout. This report validates the excellent work already being done by the UA to:

- Establish student fees only in cases where the cost of program delivery, service provision, or in-class instruction has been analyzed and dictates an additional fee amount to ensure the high degree of quality expected by UA students
- Follow a documented, transparent fee-setting process
- Engage student leadership and the broader UA community in the review and approval of student fees
- Consider the cumulative effect of fees of all types on the total cost of attendance for students
- Ensure that fee revenues are accountable to the period in which they are collected and for the purposes they are intended

The few exceptions to this, as identified by the auditors in the report, represent an opportunity for the UA to improve upon its policies and procedures, and continue to lead the way in meeting best practices and standards where fee-setting is concerned. As such, the UA agrees with each relevant UA finding and will implement the recommendations provided.

I would like to specifically thank the UA staff that worked diligently throughout this performance audit to provide data, documentation, and materials to the audit team, participated in interviews with audit staff, addressed follow-up requests within specified timelines, and helped to shape the final report:

- Dr. Allison Vaillancourt, Vice President for Business Affairs and Human Resources, and Audit Coordinator
- Dr. Gail Burd, Senior Vice Provost for Academic Affairs
- Martha Sestega, Program Manager, Academic Affairs



- Dr. Melissa Vito, Senior Vice President for Student Affairs, Enrollment Management, and Strategic Initiatives
- Joel Hauff, Associate Vice President, Student Affairs and Enrollment Management
- Gregg Goldman, Senior Vice President for Business Affairs and Chief Financial Officer
- Kathy Whisman, Associate Vice President and Chief Budget Officer

This team is largely responsible for achieving the positive results reviewed by the auditors, and will be the team responsible for ensuring compliance with the recommendations by six months from the published date of the report.

Again, thank you for the thorough review of the fee-setting processes at the UA and the opportunity to respond.

Sincerely,

Robert C. Robbins, M.D.  
President

**Finding 1:** UA has established some fee-setting processes consistent with best practices, but should further enhance its processes

**Recommendation 1.1 – 1.10:** Not applicable to UA.

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

UA Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: The UA has continued to implement its process to better account for and review class fee revenues and expenses, and will see this project to completion during fiscal year 2018. |

**Recommendation 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.

UA Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: The UA will follow guidance from ABOR in this area and make policy and procedure revisions as necessary. |

**Recommendation 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.

UA Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: The UA will continue to implement its documented fee-setting procedures for class fees that consider cumulative impact on a student's cost of attendance. While the UA has routinely considered cumulative impact when establishing mandatory fees, program fees, and differential tuition, it will develop and implement written policies and procedures for those fee types that explicitly document the need to do so and provide guidance on how best to consider cumulative impact. |