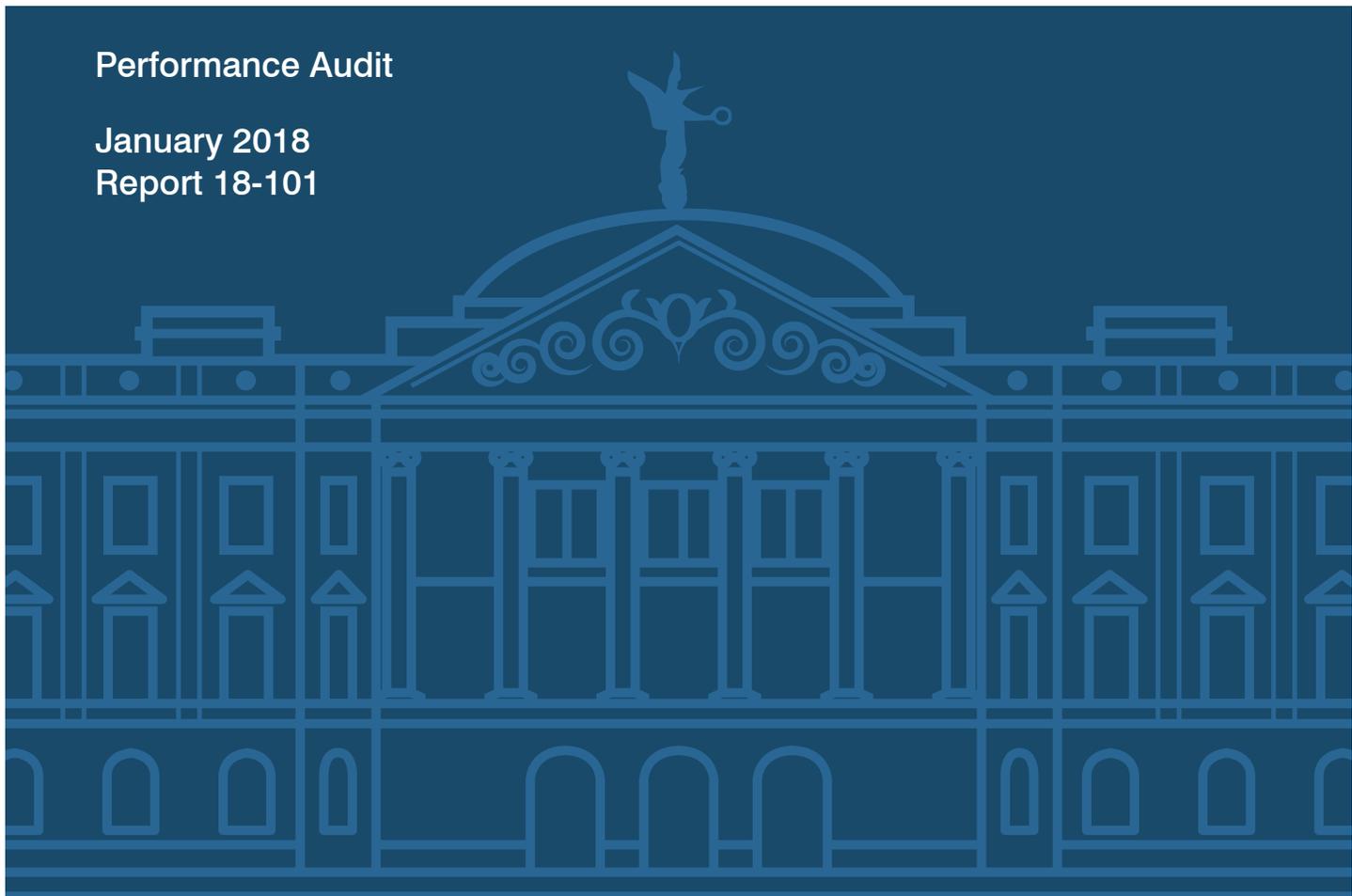


Arizona's Universities Fee-Setting Processes

ABOR and the universities have established some fee-setting processes consistent with best practices but should further enhance their processes

Performance Audit

January 2018
Report 18-101



A Report to the Arizona Legislature

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 and special reviews of school districts, state agencies, and the programs they administer.

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January 19, 2018

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Dr. Rita Hartung Cheng, President
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Transmitted herewith is a report of the Auditor General, *A Performance Audit of Arizona's Universities—Fee-Setting Processes*. This report is in response to Arizona Revised Statutes (A.R.S.) §41-2958 and was conducted under the authority vested in the Auditor General by A.R.S. §41-1279.03. I am also transmitting within this report a copy of the Report Highlights for this audit to provide a quick summary for your convenience.

As outlined in their responses, the Arizona Board of Regents, Arizona State University, Northern Arizona University, and the University of Arizona agree with all of the findings and plan to implement or implement in a different manner all of the recommendations.

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

Sincerely,

Debbie Davenport
Auditor General

cc: Arizona Board of Regents members

Attachment



Arizona's Universities Fee-Setting Processes

CONCLUSION: Although the Arizona Board of Regents (ABOR) and the State's universities—Arizona State University (ASU), Northern Arizona University (NAU), and the University of Arizona (UA)—have established some fee-setting processes that generally align with best practices that help to promote transparency and accountability, they should further enhance these processes. ABOR has statutory authority to set tuition and fees and has established policies and guidance that the universities must follow when setting fees. ASU, NAU, and UA have also developed some fee-setting policies and processes that are consistent with fee-setting standards and guidelines to guide their implementation of ABOR fee-setting policies and guidance and additional internal review and approval processes for establishing class fees that are \$100 or less. However, ASU, NAU, and UA should further ensure that class fee revenues are used for approved purposes and address instances of noncompliance with existing fee-setting policies and procedures we identified. In addition, ABOR, ASU, NAU, and UA should enhance their fee-setting processes to further align them with fee-setting standards and guidelines.

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

ABOR has established categories of student fees the universities may charge and the universities collected \$310 million from student fees in fiscal year 2016—ASU, NAU, and UA charge hundreds of student fees annually in addition to tuition to pay for various services that are intended to benefit students. ABOR has statutory authority to set university tuition and fees and has established four categories of fees the universities may charge to students: mandatory fees, which are charged to all students unless specifically excluded; differential tuition/program fees, which are charged to students based on their degree program; and class fees, which are charged to students in specific classes. ABOR requires the universities to obtain its approval before charging students any mandatory fees, differential tuition/program fees, and class fees over \$100. ABOR policy permits the universities to establish class fees that are \$100 or less without ABOR approval. In fiscal year 2016, ASU, NAU, and UA collected approximately \$310.4 million from 5,655 student fees.

ABOR has established some policies and guidance for university fee-setting consistent with fee-setting best practices and universities have developed some additional processes—Best practices recommend a fee-setting approach that promotes transparency and accountability. ABOR's fee-setting policies and guidance, which the universities must follow when establishing or increasing student fees, are generally consistent with the best practices outlined in fee-setting standards and guidelines. For example, consistent with best practices, which recommend that entities involve stakeholders in the fee-setting process and consider costs when setting fee rates, ABOR policies and guidelines require the universities to involve students in the process of setting mandatory fees and differential tuition/program fees, and specify that class fees may only be charged to cover the cost of specific items or services. Further, ASU, NAU, and UA have also developed some fee-setting policies and processes to guide their implementation of ABOR fee-setting policies and guidance. For example, all three universities require academic departments to submit an online form to establish class fees, and have established processes to review some existing fees.

ASU, NAU, and UA should further ensure that class fee revenues are used for approved purposes—

We reviewed spending and university fee proposals for a sample of 56 student fees that the universities charged during fiscal year 2016, including 44 class fees, and found that all three universities deposited revenues from multiple class fees into combined accounts without otherwise separately accounting for individual fees' revenues or spending in some cases. As a result, we could not determine if fee revenues were spent for approved purposes for 38 of the 44 class fees that we reviewed. Combining fee revenues into single accounts may help fee-setting entities manage the administrative burden of accounting for multiple class fee revenues and expenses. Best practices indicate that entities should retain sufficient records to demonstrate how fee revenues were used while balancing the administrative burden of doing so. UA

reported that as of fiscal year 2017, it had implemented a new process that should help it to better account for and review class fee spending. Additionally, ASU has implemented a procedure that allows academic departments to deposit class fee revenues into combined accounts when these revenues are intended to be spent for shared resources. If properly implemented, this procedure should allow ASU to track revenues for class fees deposited into combined accounts. We were informed of this procedure after completing our test work and will review the procedure during this report's 6-month followup. NAU has not established written procedures to help ensure that class fee revenues deposited into combined accounts are spent for approved purposes, and it should do so.

ASU, NAU, and UA should address instances of noncompliance with fee-setting policies and procedures—The universities have not consistently followed fee-setting policies, procedures, and guidance established by ABOR or their own internal policies and procedures. Specifically, contrary to ABOR policy and inconsistent with the fees' approved use, UA requires its departments to remit a 1 percent service charge on all purchases made with class fee revenues to pay for a portion of institutional support or administrative costs, and ASU incorrectly spent approximately \$5,000 in class fee revenues to pay student workers whose duties were not consistent with the fees' approved purpose. In addition, in fiscal year 2016, ASU spent approximately \$445,000 of Student Athletics fee revenues for recruiting-related expenses that, although consistent with the ABOR-approved purpose of the fee, appear to be inconsistent with the fee uses agreed upon by ASU student government, university administration, and the athletics program. Further, contrary to ABOR policy, NAU did not obtain student input for one of the program fees we reviewed.

ABOR and the universities should enhance their fee-setting processes to further align them with fee-setting standards and guidelines—Although portions of their fee-setting policies and guidance are consistent with best practices, ABOR and the universities should further enhance these processes. For example, contrary to best practices, ABOR approved overly broad purposes for mandatory and differential tuition/program fees, and as a result, the universities spent fee revenues on items that appeared unusual or may not have been consistent with the approved use. In addition, although NAU and UA developed processes for identifying fees that may no longer be necessary or have rates that are set too high, as recommended by best practices, ASU has not developed such a process. Further, with the exception of a procedure UA developed for class fees, ABOR and the universities have not established policies for considering the cumulative impact of the multiple fees that students must pay to attend the universities, or may not have had the information necessary to do so, because the inventories of existing fees the universities provide to ABOR do not include class fees, which are the majority of the fees that the universities charge, and are not always accurate.

Recommendations

ABOR should:

- Determine if administrative costs are an allowable use of class fee revenues, and revise its policies accordingly;
- Revise its fee-setting policies and guidance for mandatory fees and differential tuition/program fees to require the universities to develop clearly defined purposes for proposed fees, consider the appropriateness and costs of the items or services for which each fee is intended to pay, and include administrative costs in fee proposals; and
- 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.

ASU should:

- Develop and implement written policies, procedures, or other guidance to direct academic departments' reviews of class fee revenue spending to help ensure that fee revenues are used for approved purposes, and consider all required fees students may potentially pay when proposing new fees or increases to existing fees; and
- Ensure that it conducts a planned review of its Student Athletics fee charter and revise its Student Athletics fee procedures and guidance to reflect any changes made to the charter.

NAU should develop and implement written policies, procedures, or other guidance to help ensure that class fee revenues deposited into combined accounts are spent for approved purposes; ensure that it complies with ABOR's requirement to obtain student input for mandatory fees and program fees; and consider all required fees students may potentially pay when proposing new fees or increases to existing fees.

UA should continue to implement its process to better account for and review class fee revenues and expenses, continue to implement its new procedure for considering cumulative impact when establishing class fees, and develop and implement additional fee-setting procedures for considering cumulative impact when establishing all fees.



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Scope and objectives

The Office of the Auditor General has conducted a performance audit of fee-setting processes at Arizona State University (ASU), Northern Arizona University (NAU), and the University of Arizona (UA) pursuant to Arizona Revised Statutes (A.R.S.) §41-2958. This audit was conducted under the authority vested in the Auditor General by A.R.S. §41-1279.03 and is the first in a series of three performance audits of the State's universities. The second audit will review the universities' processes and strategies for improving undergraduate retention and graduation rates, and the third audit will address the universities' information technology security.

Arizona Board of Regents governs State's universities

The Arizona Board of Regents (ABOR) is the governing body of the State's three universities: ASU, NAU, and UA. Article XI, §5, of the Arizona Constitution created ABOR, and statutes provide it with the general authority to supervise and perform various activities related to the universities. Specifically, A.R.S. §15-1626 establishes ABOR's general powers and duties, including setting tuition rates and admission requirements, approving the universities' annual operating budgets, and adopting personnel policies for all ABOR and university employees. ABOR consists of 12 members, including the Governor, the Superintendent of Public Instruction, and 10 members the Governor appoints.¹ A.R.S. §15-1601(A) requires ABOR to maintain the following three state universities:

- **ASU**—ASU has several campuses, including those located in the City of Tempe, ASU Polytechnic in the City of Mesa, ASU West in the City of Phoenix, bordering the City of Glendale, and ASU Downtown Phoenix in the City of Phoenix. In fiscal year 2017, ASU's full-time equivalent student enrollment (FTSE), a statutorily mandated measure of student enrollment, was 92,238, and the total faculty and staff for the fall semester was 14,703.
- **NAU**—NAU has several campuses, including those located in the City of Flagstaff, the City of Yuma, the City of Phoenix, and the Town of Prescott Valley. In fiscal year 2017, NAU's FTSE was 27,479 and the total faculty and staff for the fall semester was 4,352.
- **UA**—UA has several campuses, including those located in the City of Tucson, UA South, which has a location in the City of Sierra Vista, and the biomedical campus that is located in the City of Phoenix. In fiscal year 2017, UA's FTSE was 41,565 and the total faculty and staff for the fall semester was 15,056.

Universities charge fees for student services

A.R.S. §15-1626 (A)(5)(6) gives ABOR the authority to set tuition and fees for the universities. Consistent with this statutory authority, ABOR developed a policy manual that includes fee-setting policies and guidance that the universities must follow when establishing or increasing student fees. For example, ABOR's policies establish four fee categories within which the universities may charge fees to students. Further, ABOR's policies require the universities to submit a proposal to ABOR and obtain ABOR approval before charging fees in most of these fee categories. Specifically, ABOR has established the following fee categories:

¹ Two of the ten ABOR members are student members. Each year, the Governor designates a university on a rotating basis to submit a list of nominees for student members. The designated university's associated student organization selects three nominees through a majority vote of its governing body. The Governor considers the three nominees when appointing the student members.

- **Mandatory fees**—These are fees charged to all students at one of the universities. A university may exclude specific students from paying mandatory fees, such as students who do not attend the university's main campus. The universities must obtain ABOR approval before charging any mandatory fee. The universities have established several mandatory fees, including fees to support their information technology infrastructures, such as their wireless networks, health and recreation facilities and services, and athletics programs (see Appendix B, Table 8, pages b-1 through b-4, for the descriptions and annual dollar amounts of these mandatory fees).² Collectively, in fiscal year 2016, ASU, NAU, and UA charged 23 mandatory fees and collected approximately \$115 million in mandatory fee revenues (see Table 1, page 3, for the total number of mandatory fees each university charged and the revenue each university collected from these fees in fiscal year 2016).
- **Differential tuition and program fees**—These are fees charged to students based on their degree program, such as for students enrolled in a business degree or honors program. These fees are intended to benefit students in these programs and may be used to pay for faculty, facilities, technology, or other services the college, school, or degree program deems necessary. The universities must obtain ABOR approval before charging any differential tuition or program fee. The universities have each determined the circumstances in which they establish differential tuition versus those in which they establish program fees, but in practice, the two fee categories function similarly. ASU and UA charge both differential tuition and program fees. NAU charges only program fees. Collectively, in fiscal year 2016, ASU, NAU, and UA charged 183 differential tuition/program fees and collected approximately \$148 million in differential tuition/program fee revenues (see Table 1 for the total number of differential tuition/program fees each university charged and the revenue each university collected from these fees in fiscal year 2016).
- **Class fees**—These are fees charged to students who enroll in specific classes that have a need for or use special equipment, supplies, technology, personnel, or field trips. ABOR has defined the acceptable items, materials, and services for which the universities may charge class fees, and ABOR approval is required for class fees that are more than \$100. However, consistent with its statutory authority, ABOR has delegated the authority to set class fees of \$100 or less to the universities. The majority of the universities' class fee amounts are \$100 or less (see Table 2, page 3) and are internally approved by each university. In fiscal year 2016, class fee amounts ranged from \$2 for field trips for the Water Science and the Environment class at UA, to \$5,000 for the Regional Jet Operations Capstone class at ASU.³ Collectively, in fiscal year 2016, ASU, NAU, and UA charged fees for 5,446 classes and collected approximately \$32.6 million in revenues from class fees (see Table 1 for the total number of class fees each university charged and the revenue each university collected from these fees in fiscal year 2016).

In addition, ASU, NAU, and UA charge students other nonacademic fees that they have determined are not mandatory fees, differential tuition/program fees, or class fees, as defined by ABOR (see Finding 1, page 19, for more information about NAU's Transportation fee and UA's Student Support fee, and Other Pertinent Information, pages 27 through 28, for more information about ASU's Resident Surcharge fee). See Table 1 for the revenue each university collected from these fees in fiscal year 2016.⁴

During the audit, in September 2017, the Arizona Attorney General's Office filed a lawsuit against ABOR challenging its tuition-setting policies, including ABOR's approval of the universities' practices of requiring students to pay mandatory fees for items or services other than instruction, such as athletics, health and recreation, and technology services. The Arizona Constitution states that the universities shall be open to students of both sexes and the instruction furnished shall be as nearly free as possible. According to the lawsuit, ABOR has adopted

² Although the universities charge student tuition and fees on a per-semester basis, the annual dollar amounts presented in Appendix B represent the total fee amounts charged for the fall 2017 and spring 2018 semesters.

³ According to ASU's website, students in the professional flight program have access to flight training, including the use of flight simulators and other facilities, as part of their degree programs.

⁴ ABOR's policies do not prohibit the universities from charging other administrative service fees and charges, such as service fees for credit card payments and late registration charges. ABOR does not require approval for these categories of fees, and they were not included in the scope of this audit.

Table 1

In fiscal year 2016, each university charged a combination of mandatory fees, differential tuition/program fees, class fees, and other nonacademic fees that generated approximately \$310 million in fee revenues

(Unaudited)

	State's universities		ASU		NAU		UA	
	Number of fees	Fee revenue collected	Number of fees	Fee revenue collected	Number of fees	Fee revenue collected	Number of fees	Fee revenue collected
Mandatory fees	23	\$114.8M	8	\$ 53.8M	7	\$19.3M	8	\$41.7M
Differential tuition/program fees ¹	183	147.7	92	104.1	22	5.8	69	37.8
Class fees	5,446	32.6	3,111	21.2	1,154	5.4	1,181	6
Other non-academic fees ²	3	15.3	1	13.7	1	1.4	1	0.2
Total fees and revenues	5,655	\$310.4M	3,212	\$192.8M	1,184	\$31.9M	1,259	\$85.7M

¹ NAU charges only program fees.

² Other nonacademic fees do not include administrative service fees and charges, such as service fees for credit card payments and late registration charges.

Source: Auditor General staff analysis of ASU's, NAU's, and UA's fiscal year 2016 lists of fees charged to students and general ledgers.

tuition-setting policies that allow the universities to base tuition on factors other than the cost of furnishing instruction. As of December 2017, ABOR had filed three motions seeking to dismiss the lawsuit. Specifically, the first motion argues that the Arizona Attorney General does not have the statutory authority to bring the lawsuit, the second motion argues that the Arizona Supreme Court has already decided that the constitutional requirement that instruction furnished shall be as nearly as free as possible is a political question and is therefore not subject to trial in a court of law, and the third motion argues that ABOR is entitled to legislative immunity from suit regarding its tuition and fee-setting decisions. See *State of Arizona, ex rel. Mark Brnovich, Attorney General, v. Arizona Board of Regents*, CV2017-012115 (Arizona Superior Court, Maricopa County).

Table 2

In fiscal year 2016, class fees ranged from \$2 to \$5,000, but the most common fee amount was \$50 and the majority of fees were \$100 or less

(Unaudited)

	ASU	NAU	UA
Most common class fee amount	\$50	\$50	\$50
Range of class fee amounts	\$3 - \$5,000 ¹	\$5 - \$1,100 ²	\$2 - \$4,800 ³
Percentage of class fees \$100 or less ⁴	97%	95%	81%

¹ ASU charged the \$3 class fee for its Hike, Walk, Jog for Health and Fun Physical Activity class and the \$5,000 fee for its Regional Jet Operations Capstone class.

² NAU charged \$5 class fees for several classes. The \$1,100 class fee was charged for its Advanced Geologic Field Methods class.

³ UA charged the \$2 class fee for field trips for its Water Science and the Environment class and the \$4,800 fee for international travel for its Global Business Experience class.

⁴ ABOR approval is not required for class fees that are \$100 or less.

Source: Auditor General staff analysis of ASU's, NAU's, and UA's fiscal year 2016 lists of fees charged to students.

Revenues and expenses

ASU, NAU, and UA receive revenue from the student tuition and fees they charge. The universities also receive revenue from other sources, such as State General Fund appropriations, government grants and contracts, and private gifts, grants, and contracts. The total revenue that the universities receive has increased since fiscal year 2007, and the composition of that revenue has changed. For fiscal year 2017, the majority of the universities' expenses were for education and general purposes.

Universities receive revenue from student tuition and fees—As shown in Table 3 on page 5, in fiscal years 2016 and 2017, the universities received approximately \$2 billion in revenue from student tuition and fees. As shown previously in Table 1 (see page 3), ASU, NAU, and UA collected approximately \$310.4 million from 5,655 mandatory fees, differential tuition, program fees, class fees, and other nonacademic fees charged to students in fiscal year 2016.

The number of fees a student must pay depends on his/her program of study. Specifically, while all students must pay mandatory fees, not every student will pay differential tuition/program fees or class fees. As previously mentioned, differential tuition/program fees are charged only to students in certain degree programs. For example, for the fall 2017 semester, business students at ASU, NAU, and UA were charged \$344, \$511, and \$513, respectively, for mandatory fees and were also charged differential tuition and/or program fees (see Table 4, page 6, for an example of the tuition and fees business students at each university were charged in the fall 2017 semester).⁵ In addition, because not all classes have fees, whether a student will be charged a class fee depends on the class the student is taking.

Fees are covered by a student's financial aid in some cases. Specifically, although students are charged tuition and fees, a 2011 Office of the Auditor General report found that the average amount of tuition and mandatory fees that resident undergraduate students actually pay is reduced substantially by financial aid.^{6,7} All three universities reported that they consider mandatory fees as part of a student's education costs when determining the amount of financial aid to award a student. ASU and NAU reported that they also consider the differential tuition and/or program fees a student will have to pay, and UA reported that it may consider such fees if a student documents that their educational expenses exceed UA's estimated standard cost of attendance.⁸ Finally, ASU, NAU, and UA reported that class fees may be taken into account when awarding financial aid under certain circumstances, such as upon the request of the student.

Universities also receive revenue from other sources—In addition to the revenue received from student tuition and fees, ASU, NAU, and UA also receive revenue from other sources, such as State General Fund appropriations, government grants and contracts, and private gifts, grants, and contracts. As shown in Table 3 on page 5, during fiscal year 2017, the universities received approximately \$5.1 billion in total revenue; approximately \$875 million was received from government grants and contracts and approximately \$688 million was received from State General Fund appropriations. However, some of these revenues are not available for educational use, such as certain revenues from government grants and contracts.

Universities' revenue has been increasing and revenue composition has changed—The total revenue the universities have received, student enrollment, and tuition and fees charged have increased since fiscal year 2007. Specifically, between fiscal years 2007 and 2017, the universities' total revenues from all sources

⁵ The fee amounts presented in Table 4 do not match the total mandatory fee amounts presented in Table 8 (see page b-3) because Table 8 presents the annual fee amounts charged to students as opposed to the fall 2017 semester mandatory fee amounts. In addition, UA has implemented a tuition guarantee program whereby mandatory fee increases are not applicable to continuing students.

⁶ See Office of the Auditor General Report No. 11-11, *A Questions-and-Answers document on the Arizona Board of Regents—Tuition Setting for Arizona Universities*.

⁷ A.R.S. §15-1642 authorizes ABOR to establish an Arizona Financial Aid Trust Fund that provides need-based financial aid to students. Statute permits ABOR to charge a student fee to deposit into the Arizona Financial Aid Trust Fund and each university charges all students a mandatory Arizona Financial Aid Trust fee. In addition, ABOR requires that 14 percent of the revenue collected for all differential tuition/program fees be set aside to provide need-based financial aid to students.

⁸ Cost of attendance is the estimated total costs a student will incur each year including tuition, fees, room and board, and other expenses.

Table 3
Schedule of revenue sources and expenses for the State's universities
Fiscal years 2015 through 2017
(In thousands)

	2015	2016	2017
Revenue sources			
Student tuition and fees ¹	\$1,791,173	\$1,994,141	\$2,154,408
Government grants and contracts	828,390	846,928	874,626
State General Fund appropriations ²	761,274	652,388	688,239
Private gifts, grants, and contracts	501,863	626,526	573,222
Sales and services ³	522,459	535,787	566,036
State share of sales taxes ⁴	64,757	69,927	72,696
Other ⁵	213,170	134,527	200,483
Total revenue sources	4,683,086	4,860,224	5,129,710
Expenses			
Education and general:			
Instruction	1,270,777	1,379,112	1,446,347
Research	692,197	682,319	700,883
Academic support	548,218	650,426	650,260
Institutional support	345,101	337,120	357,649
Scholarships and fellowships	222,901	236,095	277,298
Operation and maintenance of plant	215,025	222,662	235,384
Student services	196,013	217,885	233,645
Public service	141,441	143,574	153,465
Total educational and general	3,631,673	3,869,193	4,054,931
Auxiliary enterprises ³	348,040	349,820	360,400
Depreciation	274,610	279,800	297,969
Interest on debt	122,444	136,907	148,532
Other	9,814	16,039	7,610
Total expenses	4,386,581	4,651,759	4,869,442
Excess of revenues over expenses	\$ 296,505	\$ 208,465	\$ 260,268

¹ Reported student tuition and fee amounts as revenue sources were reduced for scholarship allowances. This means the tuition and fees the universities charged to students for the full cost of services provided were reduced by certain student grants or scholarships awarded to some of those students and used to pay for some or all of their tuition and fees. The deducted grants or scholarships include federal financial aid awarded to students.

² State General Fund appropriations includes appropriations the universities received for the Arizona Financial Aid Trust Fund and capital debt service on research infrastructure projects. The Arizona Financial Aid Trust Fund and research infrastructure revenues are not available for general education use.

³ Sales and services revenue includes charges for goods or services provided to students, faculty, staff, or the public. The revenues collected were for self-supporting activities and should therefore pay for all the costs of providing the goods or services. For example, amounts collected for food services and residence halls are accounted for as sales and services revenue. The auxiliary enterprises expenses generally include the costs for providing these goods and services.

⁴ According to ABOR's website, the state share of sales tax revenue is the universities' portion of Education 2000 (Proposition 301) sales tax monies that help pay for technology and research initiatives. ABOR administers these monies and awards them to the universities based on each university's funding requests for specific initiatives.

⁵ Other revenue includes commitments, conveyances, grants, and private gifts restricted for capital purposes, and additions to permanent endowments.

Source: Auditor General staff analysis of ASU's, NAU's, and UA's *Comprehensive Annual Financial Report* for the years ended June 30, 2015 through 2017, and other information provided by ASU and UA.

Table 4
Example full-time resident undergraduate business students' tuition bills
Fall 2017

ASU	
Tuition	\$4,917
Resident Surcharge fee	135
Mandatory fees	
Financial Aid Trust fee	49
Health and Wellness fee	40
Recreation fee	25
Student Athletics fee	75
Student Program fee	30
Student Services Facility fee	75
Technology fee	50
Differential tuition/program fees	
Business differential tuition	400
Business program facility fee	125
Class fees	100
Total	\$6,021
NAU	
Tuition	\$4,731
Mandatory fees	
Green fee	5
ASNAU fee	23
Student Activity fee	25
Financial Aid Trust fee	40
Information Technology fee	168
Health and Recreation fee	250
Differential tuition/program fees	
Business program fee	290
Class fees	75
Other fee —Transportation fee ¹	75
Total	\$5,682
UA	
Tuition	\$4,976
Mandatory fees ²	
Financial Aid Trust fee	48
Health and Recreation fee	150
Information Technology/Library fee	240
Recreation Center Bond fee	25
Recreation Center Program fee	4
Student Media fee	3
Student Services fee	40
Wildcat Events Board fee	3
Differential tuition/program fees	
Business differential tuition	525
Class fees	50
Total	\$6,064

¹ Fee charged to Flagstaff campus students who do not purchase a parking pass.

² These rates do not reflect current charges for incoming students because UA has implemented a tuition guarantee program. This student was also not charged the Freshman fee or the Student Support fee because those fees are charged only to freshmen and incoming students.

Source: Auditor General staff analysis of one student bill from each university.

increased from approximately \$3.1 billion to approximately \$5.1 billion (see Figure 1, page 8). In addition, during this period, the universities' total FTSE increased from approximately 110,000 in fiscal year 2007 to approximately 165,000 in fiscal year 2017, an increase of nearly 50 percent. Further, the universities increased charges for tuition and mandatory fees during this time period. For example, between fiscal years 2007 and 2017, the universities increased charges for tuition and mandatory fees for incoming main campus resident undergraduate students, as follows:

- **ASU**—\$4,688 in fiscal year 2007 to \$10,640 in fiscal year 2017;
- **NAU**—\$4,546 in fiscal year 2007 to \$10,764 in fiscal year 2017;⁹ and
- **UA**—\$4,754 in fiscal year 2007 to \$11,769 in fiscal year 2017.¹⁰

In addition, between fiscal years 2007 and 2017, the composition of the universities' revenues changed. For example, as shown in Figure 1 (see page 8), student tuition and fees comprised nearly twice as much of the universities' total revenues in fiscal year 2017, as compared to fiscal year 2007. In contrast, State General Fund appropriations comprised approximately 31 percent of the universities' total revenues in fiscal year 2007, as compared to approximately 13 percent of their total revenues in fiscal year 2017. For information about how each university's composition of revenues changed between fiscal years 2007 and 2017, see Appendix C, pages c-3 through c-7.

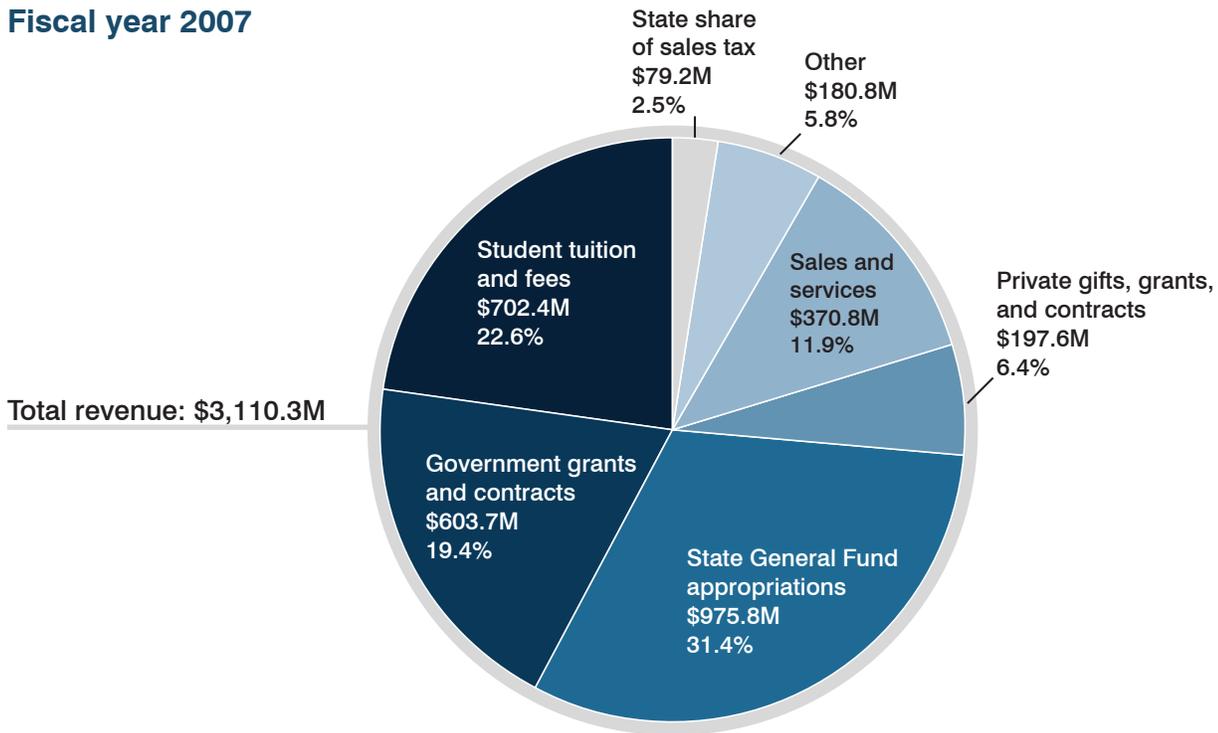
Majority of universities' expenses for education and general expenses—In fiscal year 2017, the universities had total expenses of approximately \$4.9 billion, with education and general expenses, including instruction and research activities, accounting for approximately \$4 billion of that total. Approximately 66 percent of the universities' education and general expenses were for payroll and related benefits. For information about each university's revenues and expenses, see Appendix C, pages c-2 through c-6.

⁹ In fiscal year 2009, NAU implemented a pledge program, which guarantees incoming students a constant tuition rate for four years. The fiscal year 2017 amount represents the 2017 pledge rate for incoming students.

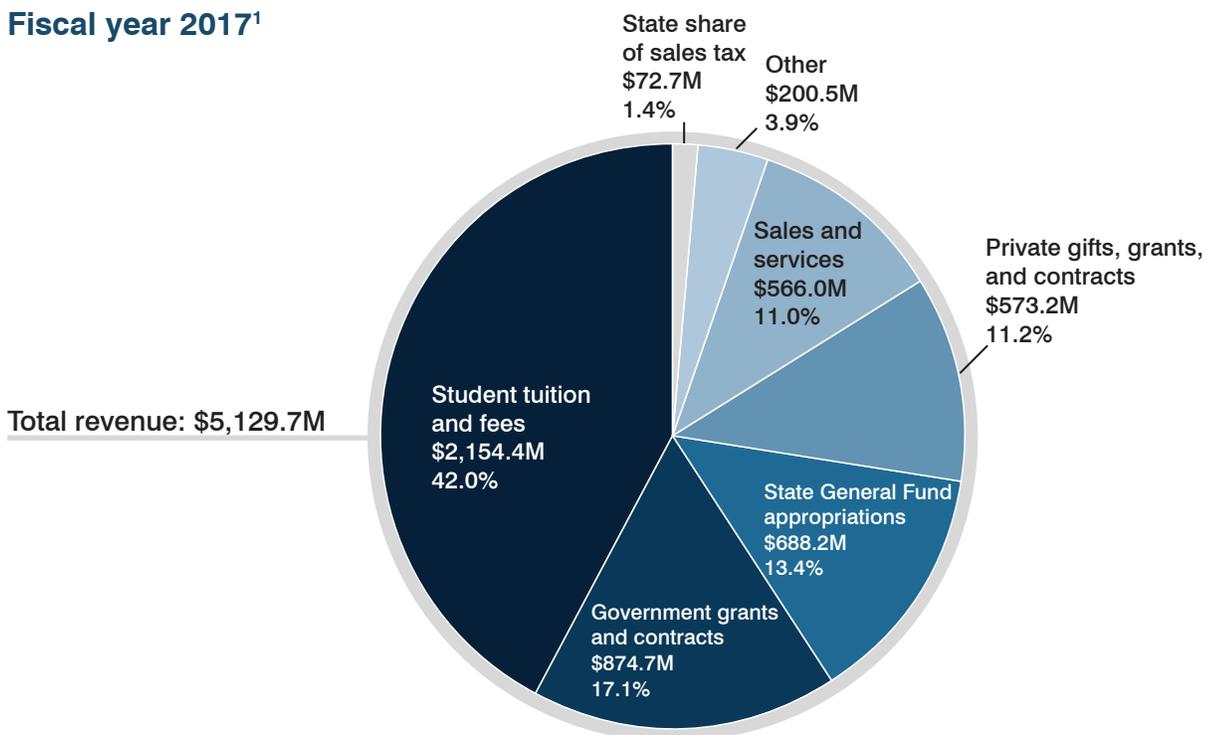
¹⁰ In fiscal year 2015, UA implemented a tuition guarantee program, which guarantees incoming students a constant tuition and mandatory fee rate for four years. The fiscal year 2017 amount represents the 2017 tuition guarantee rate for incoming students.

Figure 1
State's universities' revenues by source
Fiscal years 2007 and 2017
(In millions)

Fiscal year 2007



Fiscal year 2017¹



¹ See footnotes from Table 3 on page 5.

Source: Auditor General staff analysis of ASU's, NAU's, and UA's *Comprehensive Annual Financial Report* for the years ended June 30, 2016 and 2017, ASU's *Comprehensive Annual Financial Report* for the year ended June 30, 2007, and other information provided by ASU and UA.



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

The Arizona Board of Regents (ABOR) and the State's universities—Arizona State University (ASU), Northern Arizona University (NAU), and the University of Arizona (UA)—have established some fee-setting processes that are consistent with best practices but should enhance their processes. ASU, NAU, and UA charge hundreds of student fees annually to pay for various services intended to benefit students (see textbox for the ABOR-established categories of student fees). ABOR and the universities have established some fee-setting processes that generally align with best practices recommended by fee-setting standards and guidelines to help promote transparency and accountability for fees. Additionally, UA has established a process to help ensure class fee revenues are spent for approved purposes and should continue to use this process, ASU has implemented a procedure that should allow it to track revenues for class fees deposited into combined accounts, and NAU should establish similar written processes. Further, all three universities should address instances of noncompliance with ABOR policies and guidance or their own fee-setting policies and procedures in the cases auditors identified. Finally, ABOR and the universities should enhance their fee-setting policies, procedures, and guidance to further align them with fee-setting standards and guidelines.

Universities charge hundreds of fees to pay for various student services

ASU, NAU, and UA charge hundreds of student fees annually in addition to tuition to pay for various services that are intended to benefit students.¹¹ According to fee-setting standards and guidelines, when government entities provide services that benefit the general public collectively, these entities may choose to charge taxes or other charges to all members of the general public to pay for these services.¹² As such, and similar to other

ABOR-established student fee categories

- **Mandatory fees**—Charged to all students at the university, unless specifically excluded. These fees pay for general services and benefits available to all students who pay the fees, such as information technology, health and recreation, and athletics.
- **Differential tuition/program fees**—Charged to students based on their degree program, such as students enrolled in business or honors programs. These fees are intended to benefit students in these programs and may be used to pay for faculty, facilities, technology, or other services the college, school, or degree program deems necessary.
- **Class fees**—Charged to students for specific classes that use special equipment, supplies, or technology, and/or require additional personnel or field trips.

Source: Auditor General staff analysis of ABOR's fee-setting policies, guidance, and meeting materials.

¹¹ Although the universities charge student tuition and fees on a per-semester basis, the annual dollar amounts presented in this finding represent the total fee amounts charged for the fall and spring semesters in the applicable fiscal year.

¹² Auditors reviewed fee-setting standards and guidelines from the Arizona State Agency Fee Commission, the Government Finance Officers Association, the Mississippi Joint Legislative Committee on Performance Evaluation and Expenditure Review, the U.S. Government Accountability Office, and the U.S. Office of Management and Budget. Auditors also reviewed information about public colleges' and universities' tuition and fee-setting policies from the State Higher Education Executive Officers Association. See Appendix E, page e-1, for specific citations.

universities, ASU, NAU, and UA charge tuition and mandatory fees to all students that are intended to pay for university operations and for services available to all students (see Appendix D, page d-1, for information about the State's universities and select other universities' tuition and mandatory fees). For example, all three universities have established a mandatory fee to pay for their information technology infrastructures, such as their wireless networks. Conversely, fee-setting standards and guidelines indicate that if a service benefits particular individuals or groups, or if some individuals or groups use specific services above and beyond what is normally provided to the general public, government entities may choose to charge fees to these individuals and groups to pay for these services. As such, and similar to other universities, ASU, NAU, and UA have established differential tuition/program fees and class fees for students enrolled in specific degree programs and classes that are intended to pay for specific services and/or benefits provided by those programs and classes. For example, all three universities have established a differential tuition and/or program fee for business students. In addition, as mentioned in the Introduction (see page 2), in fiscal year 2016, class fee amounts ranged from \$2 for field trips for the Water Science and the Environment class at UA, to \$5,000 for the Regional Jet Operations Capstone class at ASU.

ABOR and the universities have established some fee-setting processes consistent with best practices

ABOR and the universities have established some fee-setting processes that generally align with fee-setting standards and guidelines. Specifically, as mentioned in the Introduction (see page 1), ABOR has statutory authority to set university tuition and fees and has established some fee-setting policies and guidance that the universities must follow when establishing new student fees or increasing existing fees, and ABOR's policies and guidance align with fee-setting standards and guidelines in several areas. In addition, each of the universities has established fee-setting processes, including developing some written policies, procedures, and other guidance for those processes, consistent with fee-setting standards and guidelines.

ABOR has established some policies and guidance for university fee-setting consistent with fee-setting standards and guidelines—ABOR has established fee-setting policies and guidance that the universities must follow when establishing new student fees or increasing existing fees. These policies and guidance outline who must approve the fee before the universities can charge the fee to students and what steps the universities must take before a fee can be approved. For example, ABOR requires the universities to obtain its approval for all mandatory fees, differential tuition/program fees, and all class fees that are more than \$100 before the universities may charge these fees to students. Further, ABOR requires the universities to submit fee proposals that include specific information for its review when proposing to establish any of these fees. For differential tuition/program fees and class fees that are more than \$100, ABOR policies and guidance require these proposals to include several items, such as the university's rationale for a new fee and how it plans to use the revenues the fee generates. ABOR policy permits the universities to establish class fees that are \$100 or less without ABOR approval (see pages 11 through 13 for more information on the universities' processes for setting class fees).

ABOR has established fee-setting policies and guidance that are generally consistent with fee-setting standards and guidelines. These standards and guidelines recommend a fee-setting approach that includes several best practices entities should follow when setting fees to promote transparency and accountability, such as defining a clear purpose for the fee, involving stakeholders in the fee-setting process, and regularly reviewing fees once they are established (see textbox, page 11, for more information on these fee-setting practices). Additionally, fee-setting standards and guidelines recommend that entities adopt formal fee-setting policies that include elements such as what factors the entity will take into account when setting the fee rate. Finally, other large public universities in other states that auditors contacted—Colorado State University; the University of California, Los Angeles; the University of Texas at Austin; and the University of Utah—have established fee-setting policies and guidelines that incorporate some of these fee-setting best practices and staff at three of these universities reported that their fee-setting policies and guidelines are intended to promote transparency and accountability. ABOR fee-setting policies and guidance align with best practices outlined in fee-setting standards and guidelines in the following areas:

- **Mandatory fees**—ABOR policies and guidance identify the beneficiaries of the services these fees will provide—all students. In addition, ABOR policies and guidance require the universities to involve stakeholders—students, in the case of the universities—in the process of setting mandatory fees by requiring the universities to notify and consult with elected student representatives and consider a general vote or other organized opinion-gathering from students likely to be charged the fee.

- **Differential tuition/program fees**—ABOR policies and guidance identify the beneficiaries of the services these fees will provide—all students in a particular degree program—and require the universities to notify and consult with elected student representatives and consider a general vote or other organized opinion-gathering from students likely to be charged the fee when setting differential tuition/program fees. ABOR also requires the universities to consider whether the cost of instruction for the degree program is markedly higher than the university's average expenses for other programs or whether market conditions warrant the additional fee. Further, ABOR policies and guidance require the universities to address the potential impact of the fee on low-income individuals by setting aside 14 percent of the revenue from each differential tuition/program fee for need-based financial aid. Finally, ABOR requires the universities to audit program fee expenses to ensure that fee revenues are used for ABOR-approved purposes.¹³

- **Class fees**—ABOR policies and guidance identify the beneficiaries of the services these fees will provide, all students in a particular class, require that class fees be established for a clearly defined purpose, and specify that class fees may only be charged to cover the cost of specific items or services outlined in ABOR's class fee guidance.

Universities have developed some additional fee-setting processes—The universities have also developed some fee-setting policies and processes that align with fee-setting standards and guidelines to guide their implementation of ABOR fee-setting policies and guidance. For example, all three universities have developed internal review and approval processes for establishing class fees that are \$100 or less, which do not require ABOR approval, including requirements for developing fee proposals that specify the class fee's purpose and/or how the universities will use the fee revenues. Additionally, the universities have developed other policies and procedures to guide their implementation of ABOR policies and guidance that incorporate additional fee-setting best practices. Specifically:

Fee-setting practices—Fee-setting standards and guidelines recommend that decision makers should establish written policies, procedures, or other guidance for:

- Establishing a clearly defined purpose for each fee;
- Considering the costs of the services that will be provided when setting the fee rate;
- Identifying who will benefit from the services the fee will provide;
- Ensuring that those who pay the fee will receive the benefits of the services the fee will provide;
- Assessing the potential impact of the fee on those individuals paying the fee, including low- and middle-income individuals;
- Involving stakeholders—the beneficiaries or users of the fee—in the fee-setting process; and
- Regularly reviewing revenues and costs, and determining if the fee is still necessary, the rate still appropriate, and if the revenue has been spent for approved purposes. Review processes should include communicating results to stakeholders and providing opportunities for stakeholder input.

Source: Auditor General staff analysis of fee-setting standards and guidelines from the Arizona State Agency Fee Commission, the Government Finance Officers Association, the Mississippi Joint Legislative Committee on Performance Evaluation and Expenditure Review, the United States Government Accountability Office, and the United States Office of Management and Budget.

¹³ ASU and UA last conducted internal audits of a sample of program fees in fiscal year 2013, and NAU last conducted an internal audit of all program fees in fiscal year 2013. In addition, although not specifically required by ABOR policy, NAU and UA conducted internal audits of a sample of class fees in fiscal year 2013 and fiscal year 2015, respectively. Further, according to ABOR Audit Committee meeting materials, ASU and NAU plan to conduct internal audits of class fees in fiscal year 2018, and UA plans to conduct an internal audit of class fees in fiscal year 2022. Additionally, in fiscal year 2012, UA conducted an internal audit of all mandatory fees, except for the Arizona Financial Aid Trust fee.

- **ASU**—ASU has developed some written procedures for establishing mandatory fees, differential tuition/program fees, and class fees. Specifically, for class fees that are \$100 or less, ASU has developed policies and procedures that require staff in academic departments to submit an online class fee request form and budget that provides a clear purpose for the proposed class fee and that requires class fee rates to be based on the costs of the items or services the fee is intended to provide. As part of this process, ASU requires class fee proposals for fees with revenues that will be deposited into combined accounts with other fee revenues to indicate how the departments will provide assurance that the revenues will benefit the students who paid the fee (see pages 13 through 14 for more information on the universities depositing class fee revenues into combined accounts). ASU's Office of the University Provost is responsible for reviewing and approving these requests.

ASU requires the use of a similar online fee request form for academic departments to propose differential tuition/program fees. This form requires the review and consideration of information and/or several elements recommended by fee-setting standards and guidelines, such as information about the fee's purpose and beneficiaries, as well as consultation with students regarding the proposed differential tuition/program fee. ASU has also implemented a review process for differential tuition/program fees that requires college deans to annually certify that fee revenues were used for approved purposes.

Finally, ASU has developed a procedure for establishing mandatory fees that requires student consultation. For at least one mandatory fee, its Student Athletics fee, ASU worked with student government to develop a charter that outlines acceptable uses of this fee's revenues and to establish an advisory board consisting of students, alumni, and ASU staff who conduct a review of this fee every 2 years to determine if the agreed-upon criteria have been implemented (see page 16 for more information on ASU's Student Athletics fee).

- **NAU**—NAU has developed a guidelines document that outlines the permitted and prohibited uses of class fee revenues and defines the circumstances under which these fee revenues may be intentionally accrued for future use. NAU has also developed and implemented procedures for establishing class fees that are \$100 or less, including requiring staff to submit an online form that includes the fee's purpose. In addition, NAU has developed a sunset review process for reviewing and renewing class fees at least once every 3 years from the time they were established, modified, or last renewed. As part of this review process, NAU academic departments must determine if any information needs to be updated, such as the fee's purpose or dollar amount, or if the fee should be discontinued. As of December 2017, NAU reported that it was in the process of completing its first sunset review of a portion of its class fees. Finally, NAU has made efforts to eliminate class fees that support resources shared by multiple classes, such as classroom computers and other technology, and instead has begun using mandatory fees to better ensure that only those who pay a fee receive the benefits from the fee. Specifically, in fall 2016, NAU increased its mandatory Information Technology fee from \$216 to \$336 annually for students taking 12 credit hours and began eliminating and/or reducing more than 387 individual class fees that were supporting information technology.¹⁴
- **UA**—UA reported implementing several changes to its fee-setting and review processes in response to internal audits of student fees conducted in 2013 and 2014, and it has established written policies and procedures that generally align with best practices for setting class fees and differential tuition/program fees. For example, UA has established a policy for its class fee review and approval process that requires staff to submit an online class fee proposal form that includes a budget that outlines itemized costs and per-student costs for the items or services to be provided. In addition, UA solicits student input as part of its class fee review and approval process through a University Fees Committee that includes student representatives and is responsible for reviewing all class fee proposals and making recommendations to UA administration on whether to approve the proposed fees. Further, UA has developed several other review processes for class fees and differential tuition/program fees. Specifically, UA has developed a process to review class fee accounts with year-end balances higher than 15 percent of annual fee revenues to help ensure that the fee is still necessary and set at an appropriate

¹⁴ Students enrolled in 12 credit hours pay the full annual rate of \$336, whereas students enrolled in fewer than 12 credits pay a reduced rate depending on the number of credit hours in which they are enrolled.

rate, and requires UA departments to annually provide information to central university administration on differential tuition/program fee revenue use. Finally, UA has processes for establishing mandatory fees that include practices recommended by fee-setting standards and guidelines, such as consulting with students when setting mandatory fees and establishing student advisory committees to provide input on how mandatory fee revenues should be spent.

ASU, NAU, and UA should further ensure class fee revenues are used for approved purposes and address noncompliance with fee-setting policies and procedures

ASU, NAU, and UA should each take steps to further ensure that class fee revenues are used for approved purposes and address instances of noncompliance with ABOR policies and guidance or their own fee-setting policies and procedures. Auditors reviewed spending and university fee proposals for a sample of 56 student fees that the universities charged during fiscal year 2016—6 judgmentally selected mandatory fees, 6 judgmentally selected differential tuition/program fees, 14 randomly selected classes with fees from ASU, 14 randomly and judgmentally selected classes with fees from NAU, and 16 randomly selected classes with fees from UA—and found that all three universities deposited revenues from multiple class fees into combined accounts without otherwise separately accounting for individual fees' revenues or spending in some cases.¹⁵ As a result, auditors could not determine if the fee revenues for 38 of the 44 sampled class fees reviewed were spent for approved purposes.¹⁶ However, UA reported that as of fiscal year 2017, it had established a process to help ensure class fee revenues are spent for approved purposes and should continue to implement this process; ASU has implemented a procedure that should allow it to track revenues for class fees deposited into combined accounts, which auditors will test during the 6-month followup; and NAU should establish written policies, procedures, or other guidance to help ensure that class fee revenues deposited into combined accounts are spent for approved purposes. In addition, although ABOR and the universities followed their established fee-setting processes in many cases auditors reviewed, ASU, NAU, and UA should take steps to address instances of noncompliance with ABOR policies and guidance or their own fee-setting policies and procedures that auditors identified.

Appropriate spending of class fee revenues could not be determined for most class fees reviewed—For 6 of the 44 sampled class fees reviewed, auditors were able to determine if fee revenues were spent for approved purposes (for auditors' findings related to the review of these fees, see page 22 for the 3 ASU fees and pages 14 through 15 for the 3 UA fees). However, auditors could not determine if revenues were spent for approved purposes for 38 of the class fees reviewed.¹⁷ Specifically, as of fiscal year 2016, all three universities deposited revenues from multiple class fees into combined accounts without otherwise separately accounting for individual fees' revenues or spending in some cases, such as for fees with relatively small revenues or when revenues from multiple fees were intended to be spent for shared resources. The universities deposited the class fee revenues for 38 of the 44 sampled class fees auditors reviewed into combined accounts with other class fee revenues but did not separately track the revenues collected or the spending for the 38 sampled class fees. As a result, although auditors reviewed the expenses for the accounts, they could not determine whether revenues from a specific class fee were spent for approved purposes. For example, all three universities deposited

¹⁵ The total student fees population for all three universities was 5,655 in fiscal year 2016. For ASU, auditors sampled 2 of the 8 mandatory fees, 1 of the 10 differential tuitions, 1 of the 82 program fees, and 14 of the 3,123 classes with fees. For NAU, auditors sampled 2 of the 7 mandatory fees, 2 of the 22 program fees, and 14 of the 928 classes with fees. NAU does not charge differential tuition. For UA, auditors sampled 2 of the 8 mandatory fees, 1 of the 7 differential tuitions, 1 of the 62 program fees, and 16 of the 1,096 classes with fees. See Appendix A, pages a-1 through a-12, for a list of the fees auditors reviewed, these fees' approved purposes, their year-end account balances, and how fee revenues for combined class fee accounts were spent and Appendix E, pages e-1 through e-2, for auditors' methodology in selecting the sample of fees, including information about the differences in the class fee sample size between the universities and information about the differences between the total classes with fees reported in the Introduction and the total classes with fees from which the sample was drawn.

¹⁶ The 38 class fees include 11 of the 14 randomly selected ASU class fees. ASU informed auditors after test work was completed that it has implemented a procedure that allows academic departments to deposit class fee revenues intended to be spent for shared resources into combined accounts and that it is able to account for spending from these combined accounts. Auditors will test ASU's procedure during the 6-month followup for this report to determine whether this procedure is working as intended. See page 14 for additional information about this procedure.

¹⁷ See footnote 16.

revenues from more than 130 class fees into a single account, but did not separately track the individual class fees' revenues and expenses.

Combining fee revenues into single accounts may be an appropriate way for entities to manage the administrative burden of accounting for multiple class fee revenues and expenses, and UA and ASU have established procedures that allow class fee revenues to be deposited into combined accounts under certain circumstances. Specifically, fee-setting standards and guidelines indicate that entities should retain sufficient records to demonstrate how fee revenues were used while balancing the need for retaining sufficient records with the administrative burden of doing so. Subsequent to the fiscal year auditors reviewed, UA reported that as of fiscal year 2017, it had implemented a new process to better account for and review class fee expenses. According to UA, this process involves creating separate accounts for all class fees with annual revenues over \$5,000, and using combined accounts with sub-accounts and project codes for class fees that generate less than \$5,000 annually. These changes should help UA to track revenues and expenses for individual classes regardless of whether the revenues are deposited into individual accounts or combined accounts. Therefore, UA should continue 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 sub-accounts and project codes for class fees that generate less than \$5,000 annually.

Although ASU has implemented a procedure that allows academic departments to deposit class fee revenues into combined accounts, auditors did not test whether ASU had implemented the procedure as designed because ASU informed auditors about this procedure after test work was completed. Specifically, ASU requires class fee proposals for fees with revenues that will be deposited into combined accounts to provide a justification for doing so and to explain how students in the classes with fee revenues deposited into combined accounts will benefit from the combined revenues. According to ASU, this procedure was designed specifically for instances when class fee revenues are intended to be spent for shared resources, and therefore, it has determined that it does not need to separately track or account for individual fees' revenues and expenses. If properly implemented, this procedure should allow ASU to track revenues for class fees deposited into combined accounts. Auditors will review ASU's procedure during this report's 6-month followup to determine whether it is working as intended to help ensure that class fee revenues deposited into combined accounts are spent for approved purposes.

Finally, NAU has not established written policies, procedures, or other guidance to 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. Therefore, NAU should develop and implement written policies, procedures, or other guidance to help ensure that class fee revenues deposited into combined accounts are spent for approved purposes. For example, similar to UA, NAU could consider creating separate accounts or using sub-accounts and project codes to track fee revenues and expenses for class fees. Alternatively, similar to ASU, NAU could consider implementing other procedures for revenues deposited into combined accounts to help ensure that these revenues are spent for approved purposes.

ASU, NAU, and UA have not consistently followed established fee-setting policies, procedures, and guidance—Although the universities have followed established fee-setting policies and procedures in many cases, auditors identified some examples where the universities did not follow ABOR policies and guidance or their own internal policies and procedures. Specifically:

- **UA remitted a portion of class fee revenues to pay for central university administration, contrary to ABOR policy**—Although UA requires its departments to remit a 1 percent service charge on all purchases made with class fee revenues to pay for a portion of institutional support or administrative costs, ABOR's class fees policies and guidance do not include administrative costs as an approved use of class fee revenues. Fee-setting standards and guidelines indicate that administrative costs can be considered when setting fee rates, but that such costs should be included as part of the fee-setting process to provide a basis for determining the fee amount. However, for all 16 UA class fees auditors reviewed, the use of a percentage of class fee revenues for university administration was not included in these fees' original proposals as approved by UA's University Fees Committee and/or by ABOR. Instead, UA reported that it implemented the practice of remitting 1 percent of the purchases made using class fee revenues to central administration in response to budget cuts. Therefore, ABOR should determine if administrative costs are an allowable use of

class fee revenues, and if it does so, it 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. Further, 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 to help ensure its process of setting class fees is transparent.

- **NAU did not obtain student input for one of the two program fees auditors reviewed**—As previously mentioned, ABOR policy requires the universities to obtain student input for mandatory fees and differential tuition/program fees by notifying and consulting with elected student representatives and considering a general vote or other organized opinion-gathering from students likely to be charged the fee (see page 11). NAU reported that it has a process for obtaining student input for mandatory fees and program fees, but for one of the two NAU program fees auditors reviewed, NAU reported in its fee proposal to ABOR that it did not consult with students when establishing the fee because “the program does not yet exist,” and “it is not possible to consult students about the fee.” Although the program had yet to be established, NAU could have consulted with existing student government representatives at the time it established this fee, as ABOR policy requires. In addition, NAU has not documented its process for obtaining student input for mandatory fees and program fees.¹⁸ Written procedures or other guidance could help NAU better ensure that it obtains student input as required. Therefore, to help ensure it complies with ABOR’s requirement to obtain student input, NAU should develop and implement written procedures or other written guidance outlining its process for obtaining student input for mandatory fees and program fees.
- **ASU spent class fee revenues to support faculty research, which was not part of the fees’ approved purpose**—In one instance, 3 of the 14 ASU class fees auditors reviewed were deposited into a combined account and ASU used fee revenues to pay for items or services that were not consistent with the fee’s approved use. Specifically, although ASU approved these fees for online criminal justice classes to pay online course assistants to build and maintain online courses, of the approximately \$209,000 in online criminal justice class fee revenues spent in fiscal year 2016, ASU spent approximately \$5,000 of this amount to pay for the salaries of at least 2 student workers, including one whose job duties included assisting with faculty research and another whose job duties included supporting in-person classes for which students did not pay fees.¹⁹ According to ASU, in November 2017, it corrected this error. ASU reported that academic departments, not ASU’s central university administration, are responsible for determining if class fee revenues were used for approved purposes. However, ASU has not developed written procedures or other guidance outlining how and when these reviews should be conducted. Written procedures or other guidance could help ASU better ensure that errors such as the error previously mentioned are discovered and corrected in a timely manner and that revenues are used for approved purposes. Therefore, ASU should develop and implement written procedures to 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. For example, similar to its procedure for differential tuition/program fees, ASU’s Office of the University Provost could require academic departments to submit information to it on class fee spending, such as annual spending reports or the results of their internal reviews. Additionally, it could develop a process for Office of the University Provost or other central university administration staff to periodically audit or spot check academic departments’ reviews of class fee revenue spending.

¹⁸ NAU does not charge differential tuition.

¹⁹ Online ASU criminal justice classes charge a class fee between \$25 and \$100, with most fees being \$25 (see Appendix A, page a-7, for more information). This fee is in addition to the \$50 iCourse fee that ASU charges for most online classes taken by students who otherwise take classes on campus (see pages 19 through 20 for more information about iCourse fees). ASU charges a different tuition rate and different fees for classes taken by students enrolled in online-only programs.

- **ASU spent Student Athletics fee revenues for recruitment, which appears inconsistent with agreed-upon fee use restrictions**—In fiscal year 2016, ASU spent approximately \$445,000 of Student Athletics fee revenues for recruiting-related expenses that, although consistent with the ABOR-approved purpose of the fee, appears inconsistent with fee uses agreed upon by ASU student government, university administration, and the athletics program. Specifically, ASU administrators and student government representatives collaborated to propose a mandatory Student Athletics fee, approved by ABOR in 2014, to enhance student support for athletics and reallocate tuition dollars away from athletics to provide additional services and resources for students. Although ABOR approved the fee for the broad purpose of “athletics,” consistent with ABOR’s fee-setting standards and guidelines, ASU’s student government, university administration, and athletics program agreed on a charter that defined the Student Athletics fee’s objective and outlined how fee revenues may be used. According to this charter, Student Athletics fee revenues may not be used for any salary or recruitment purposes. However, in fiscal year 2016, ASU spent approximately \$445,000 of Student Athletics fee revenues for recruitment-related expenses, including car rentals, lodging, and airfare. According to an ASU official, these expenses were for student-athlete recruitment, and the university believes that these expenses were appropriate because the prohibition on using Student Athletics fee revenues for recruitment was intended to apply only to employee recruitment. Specifically, ASU reported that when the fee was established, university staff and student government held discussions and determined that student fee revenues could be used for recruiting student athletes. Yet, the charter does not explicitly state that expenses for recruiting student athletes are allowable. Further, ASU could not provide any documentation to support that these discussions occurred.

According to the charter, an advisory board consisting of students, alumni, and ASU staff will conduct a review every 2 years to determine if the agreed-upon criteria have been implemented. ASU reported that the next such review is scheduled for spring 2018, and at that time the advisory board will review fee priorities and, if necessary, revise the charter. According to ASU, it will then update its procedures to reflect the agreement reached with the students, including revising any guidance on how fee revenues may be used. Therefore, ASU should take steps to ensure that this review process is completed, revise its Student Athletics fee procedures and guidance to reflect any changes to the charter, and implement these procedures and guidance consistent with the revised charter.

ABOR and the universities should enhance their fee-setting processes to further align them with fee-setting standards and guidelines

ABOR and the universities should enhance their fee-setting processes to further align them with fee-setting standards and guidelines and to help increase transparency and accountability for setting fees and using the associated revenues. Specifically, ABOR should enhance its fee-setting policies and guidance by including all best practices recommended by fee-setting standards and guidelines in its policies and guidance for mandatory fees, differential tuition/program fees, and class fees. Additionally, ABOR should determine whether all student fees charged by the universities require its review and approval. Further, ABOR and the universities should improve their processes for considering the cumulative impact of fees on students. Finally, ASU, NAU, and UA should each take specific steps to enhance their class fee-setting processes to further align them with fee-setting standards and guidelines.

ABOR should enhance its fee-setting policies and guidance to further align with best practices—Although portions of ABOR’s fee-setting policies and guidance are consistent with fee-setting best practices in some areas, ABOR should further enhance its policies and guidance for all fee categories. As discussed previously, fee-setting standards and guidelines recommend a fee-setting approach that includes several practices entities should follow when setting fees to promote transparency and accountability (see textbox, page 11, for the practices decision makers should consider when setting fees). ABOR should enhance its fee-setting policies and guidance to further align them with best practices, as follows:

- **Require a clear purpose and consideration of costs when setting fees for all fee categories—** ABOR policies and guidelines do not require the universities to clearly define a purpose for mandatory fees or differential tuition/program fees. Additionally, although ABOR’s fee-setting policies and guidance require that class fee rates be based on the costs of the specific equipment, supplies, technology, personnel, or field trips needed for the class, its policies and guidance do not similarly specify how mandatory fee rates should be calculated, such as whether fee rates should be based on the costs of the items or services to be provided. Further, although ABOR’s policies and guidelines for differential tuition/program fees require ABOR to review whether the instruction for the program requesting the fee requires markedly higher than university average expenses as compared to other programs, ABOR’s standard request forms for differential tuition/program fees require only broad, high-level information about proposed fees and do not require the universities to provide specific information about the costs of instruction or the items fee revenues would pay for to help ABOR members determine if these costs are markedly higher than average university expenses for other programs. Finally, although ABOR policy does not specifically prohibit the universities from spending mandatory fee and differential tuition/program fee revenues for administrative costs, they do not provide guidance on how these costs should be determined and under what circumstances spending fee revenues for administrative costs requires ABOR approval. As a result, auditors identified the following:
 - **ABOR approved broad fee purposes and proposed uses of differential tuition/program fee revenues, which has allowed universities broad discretion for spending these fees’ revenues—** ABOR approved broad purposes and/or proposed uses of fee revenues for all six of the differential tuition/program fees auditors reviewed. Specifically, these fees’ approved purposes included “increasing initiatives related to students’ communication skills,” providing additional engagement activities, and funding existing “highly successful initiatives.” In addition, although the universities outlined their proposed uses of fee revenues in budgets submitted to ABOR, these budgets included broad categories, such as “strengthening student experiences,” “institutional and advising personnel,” and operating expenses. Because these fees have broad purposes and/or proposed uses, the universities have broad discretion for spending these fees’ revenues, even if the items may not have been consistent with ABOR’s understanding of the approved use. For example, although the universities spent more than half of the revenues from three of the six differential tuition/program fees auditors reviewed on faculty, staff, and student workers’ salaries and benefits, the universities also spent approximately \$32,000, or less than 1 percent of total revenues, from these three fees on food, clothing, conference registrations, and travel. The universities reported that these expenses were appropriate and were consistent with at least one of the budget categories listed in the ABOR proposals, such as operating expenses.
 - **NAU spent approximately \$26,500 of Green fee revenues on items that appeared unusual but may have been consistent with the broad, ABOR-approved purpose—** ABOR approved NAU’s mandatory Green fee to “fund sustainable projects on campus.” However, absent further clarification or explanation of the ABOR-approved purpose, it is not clear whether all fiscal year 2016 expenses were consistent with this purpose. Specifically, of the approximately \$147,300 in Green fee revenues spent in fiscal year 2016, approximately \$26,500 was spent on items that appeared unusual, but may have been consistent with ABOR’s approved purpose. For example, the NAU Green Fund Committee, which is responsible for determining how Green fee revenues are spent and includes students, faculty, and staff, spent Green fee revenues on tablet computers for facility inspectors to “decrease the amount of paper used for their jobs,” manual treadmills for the campus recreation center, hats recognizing the grounds department for effective campus forest management, and an educational outreach campaign that included a boxed wine competition to “reduce the stigma that boxed wine is not as good as bottled wine and eventually reduce the amount of glass Flagstaff consumes.”
 - **ASU and UA remit a portion of mandatory fee and differential tuition/program fee revenues to support central university administration but ABOR did not consistently approve this spending—** ASU and UA require university departments to remit a portion of some mandatory fee and differential tuition/program fee revenues to central university administration. Specifically, ASU policy requires university departments to remit 8.5 percent of expenses paid from all university accounts—including mandatory and differential tuition/program fee accounts—to pay for a portion of central administration

costs, unless otherwise exempted. UA requires university departments to remit 15.13 percent of all differential tuition/program fee revenues to pay for a portion of the costs of central administration. Although ABOR policies and guidance do not specifically prohibit spending mandatory fee or differential tuition/program fee revenues on central university administration, fee-setting standards and guidelines indicate that administrative costs should be calculated as part of the fee-setting process to provide a basis for determining the fee amount. However, in fiscal year 2016, ASU remitted revenues from one of the two differential tuition/program fees auditors reviewed to pay for a portion of central university administration, even though it did not include this use of fee revenues as part of the fee proposal it submitted to ABOR for review and approval. Conversely, for both UA differential tuition/program fees auditors reviewed, UA received ABOR approval for using these fees' revenues to support university administration in fiscal year 2016.

Therefore, to help ensure that all the fees it approves are set consistently and fairly and that revenues are spent on approved items and services, ABOR should make the following revisions to its fee-setting policies and guidance for mandatory fees and differential tuition/program fees by requiring the universities to:

- 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;
 - 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
 - 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.
- **Clarify expectations for obtaining and reporting student input for all fee categories**—As previously mentioned, ABOR policies and guidelines require the universities to consult with students when setting mandatory fees and differential tuition/program fees. However, for mandatory fees, ABOR's policies do not require the universities to include information about the student input that was obtained in the fee proposals submitted for ABOR's review and approval. Further, ABOR does not require the universities to obtain student input for class fees. Finally, although ABOR holds at least one public hearing as an opportunity for students and members of the public to comment on any proposed increase in tuition and fees, the tuition and fee proposals prepared by each university each spring for ABOR do not include information about new or increases to class fees that are \$100 or less. As a result, students and members of the public may not have an opportunity to provide input on class fees that are \$100 or less. As reported in Table 2 (see page 3), between 81 and 97 percent of the class fees charged by the universities are \$100 or less. In fiscal year 2016, the revenue generated from all class fees from all three universities was approximately 11 percent of the universities' total revenue generated from student fees.

Therefore, to increase transparency and help ensure that stakeholders—primarily students—have an opportunity to comment on new fees and increases to existing fees, 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.

- **Require a regular review of universities' fee-setting processes**—Although ABOR's fee-setting policies and guidance require each university to audit program fee spending to ensure that program fee revenues were used for ABOR-approved purposes, its policies and guidance do not specify the information that should be audited or how often the universities should conduct these audits and do not include similar requirements for mandatory fees, differential tuition, or class fees. Additionally, although ABOR policy requires the universities to set aside 14 percent of differential tuition/program fee revenue to provide financial aid for students in these programs, ABOR's policies and guidance do not specifically require the universities to audit this financial aid

set-aside. Further, ABOR policy does not require the universities to provide it with information to demonstrate that the differential tuition/program fee financial aid set-aside was awarded only to students in the program for which the fee was charged. Finally, ABOR policy does not require the universities to review any of their student fees to determine if the fee is still necessary and the rate is still appropriate.

According to ABOR meeting agendas and minutes, in February and September 2014, board members discussed conducting a review of university fee-setting practices that would include streamlining fees, regularly reviewing fees to determine if they are still necessary, and ensuring temporary fees are eliminated as planned. However, ABOR did not complete this review of the universities' fee-setting practices and ABOR does not regularly review existing student fees unless a university proposes a change to the fee, such as an increase to the fee rate. As of November 2017, ABOR reported that it plans to establish a fee subcommittee and university workgroup to review ABOR and the universities' fee-setting policies and processes. Possible fee reforms discussed include establishing a fee sunset review process, increasing transparency of the universities' fee-setting processes, and developing a summary-guide for students detailing the fee-setting process.

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. For example, similar to its requirement for program fees, ABOR could require each university to regularly audit spending for all ABOR-defined fee categories. These audits or reviews could include reviewing spending for a portion of class fees, identifying fees with large amounts of unspent revenues, which could indicate the fee is no longer necessary or set too high, and reviewing university records to determine if the universities have complied with ABOR and university fee-setting policies and guidance.

ABOR should determine whether all student fees charged by the universities require its review and approval—

Some of the universities have charged student fees that are similar to mandatory fees without obtaining ABOR approval. Specifically, NAU and UA did not request ABOR review and approval for two student fees auditors reviewed because they determined that these fees did not fall within one of the fee categories requiring ABOR review (see textbox for a description of these fees). However, these two fees are similar to mandatory fees charged by NAU and UA and appear to meet ABOR's definition of a mandatory fee—a fee charged to all students unless specifically excluded by the universities. Further, although these fees appear on students' bills and students may be able to find some information about these fees from NAU's and UA's websites, these fees are not included in the universities' lists of mandatory fees or the breakdown of tuition and fees that students and parents can use to estimate the costs of attending NAU or UA. As a result, students and parents may not know about these fees until they appear on students' bills.

In addition, both ASU and UA have established a standard \$50 iCourse fee for all online classes taken by on-campus students. Although ASU and UA approved their iCourse fees through their internal class fee approval processes, these fees are not

Other required fees ABOR did not approve

NAU Transportation fee—NAU charges a \$150 annual transportation fee to Flagstaff campus students to support a portion of the operating costs to provide shuttle services and pay for other transportation-related expenses on the Flagstaff campus.¹ NAU reported that it did not request ABOR approval for this fee because the fee is charged only to students who attend the Flagstaff campus and who do not purchase a parking permit. However, all students are required to pay this fee unless they are specifically excluded.

UA Student Support fee—UA charges a \$100 one-time fee to all incoming domestic Main Campus students to support career services and other student support programs. UA reported that it did not request ABOR approval for this fee because it is a one-time fee rather than an ongoing fee charged during every semester of a student's enrollment and is not more than \$100.² However, UA has submitted other fees for ABOR approval that also fit those criteria, such as its \$10 per semester Freshman fee.

¹ This amount represents the transportation fee rate for fiscal year 2018.

² UA reported that it approved this fee using its internal process for setting class fees.

Source: Auditor General staff analysis of ABOR and university records and interviews with university staff.

consistent with ABOR's definition of class fees. Specifically, ABOR defines class fees as additional charges for specific classes that have demonstrably higher costs of delivering instruction overall because of the need for special equipment, supplies, technology, personnel, or field trips. However, both ASU's and UA's iCourse fees are not intended to provide materials or services to students enrolled in specific classes. Rather, ASU reported that iCourse fee revenues are intended to provide for the additional technology and support required to deliver the course in an online manner. In addition, budget documents for UA's iCourse fee indicate that UA set the fee rate to support the future expansion of its online degree programs, even though ABOR policy requires the universities to base class fees on the costs of the items or services to be purchased for a specific class. Because UA set the iCourse fee rate higher than needed to pay for its costs, in fiscal year 2016, UA spent only \$1.2 million of the \$2.3 million in revenues generated by its iCourse fees.

Therefore, to help ensure that all student fees the universities charge are established in line with ABOR's policies and guidance, 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. This would include determining how ABOR would be informed of the universities' existing student fees, such as NAU's Transportation fee, UA's Student Support fee, and ASU's and UA's iCourse fees.

ABOR and the universities should improve processes for considering the cumulative impact of fees on students—Fee-setting standards and guidelines suggest that decision makers should consider a fee's potential impact on those who will pay it, especially low- or middle-income individuals. However, ABOR and the universities have not established policies for considering the cumulative impact of fees on students or have not had the information necessary to do so. Specifically, because students must pay multiple fees to attend the universities, including mandatory fees, differential tuition/program fees, and/or class fees, each fee's impact should be assessed within the context of all the tuition and fees that students must pay. For example, undergraduate business students at all three universities must pay mandatory fees and a differential tuition/program fee, and may also pay specific class fees, in addition to tuition (see Table 4, page 6, for examples of business students' tuition and fee bills). In some cases, the universities have considered other fees that a student must pay when establishing or increasing some fees. For example, as previously mentioned, in fall 2016, NAU increased its mandatory Information Technology fee from \$216 to \$336 annually and began eliminating and/or reducing more than 387 individual class fees that were in some way meant to pay for information technology. NAU reported that it decided to increase its mandatory Information Technology fee and reduce or eliminate class fees for several reasons, including to ensure it provides consistent technology in classrooms, to distribute the cost of information technology to all students who benefited from information technology in classrooms rather than only charging fees to certain students, and because class fees are not considered when NAU determines a student's financial aid.²⁰ Additionally, ASU reported that its Walter Cronkite School of Journalism and Mass Communication eliminated several class fees when it established differential tuition. As of October 2017, UA developed policies and procedures for considering whether class fee requests overlap in purpose with existing differential tuition/program fees, and in November 2017 it developed a report of the class fees students enrolled in programs with differential tuition/program fees must pay for its University Fees committee to review when approving class fees. However, UA has not developed and implemented formal procedures or other written guidance for considering all other fees a student must pay when establishing differential tuition/program fees and mandatory fees. In addition, although ASU and NAU reported that they have processes for considering cumulative impact, they have not developed and implemented formal procedures or other written guidance for considering all other fees a student must pay when establishing new fees or increasing the rate of an existing fee for any fee categories.

Therefore, to help ensure that the cumulative impact of students' fees is consistently considered when establishing new fees or increasing fee rates, ASU and NAU should develop and implement policies, procedures, or other written guidance for considering 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

²⁰ All three universities reported that they consider mandatory fees as part of a student's costs when determining the amount of financial aid to award a student. ASU and NAU reported that they consider the differential tuition and/or program fees a student will have to pay, and UA reported that it may consider such fees if students can document that their educational expenses will exceed UA's standard cost of attendance, which includes tuition, fees, and other expenses. Finally, ASU, NAU, and UA reported that class fees may be taken into account when awarding financial aid under certain circumstances, such as upon the request of the student.

fees. Additionally, UA should continue to implement its new 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.

In addition, ABOR's policies do not require the universities to include information regarding the cumulative impact of fees in their fee proposals. For example, when a university proposes a new differential tuition/program fee, ABOR does not require the university to submit information about the class fees that students in the degree program or college are already paying. Further, although the universities must provide ABOR with an inventory of existing fees annually, these inventories do not include class fees, which are the majority of fees the universities charge, and are not always accurate. Specifically, ABOR requests that the universities annually provide it with an inventory of differential tuition/program fees each spring when they submit their fee proposals. However, ABOR does not require the universities to provide an inventory of classes with fees. Instead, it requests that the universities report the total number of classes with fees and the estimated revenue from these fees. As a result, ABOR may not have the information it needs to determine the cumulative impact of any new fees or increased fees on a student in a specific degree program. Finally, auditors identified several cases where the universities' fee inventories were not complete or accurate. For example, the March 2017 fee inventory that ASU provided to ABOR did not include a \$750 per semester program fee for ASU's honors college, but the inventories NAU and UA provided included their respective honors program fees. In addition, the March 2017 fee inventory that NAU provided to ABOR incorrectly listed that the program fee for a dental hygienist student is \$1,600 per year instead of \$800 per year. Although these errors may not be persistent, there are instances where ABOR had inaccurate information upon which to base its decisions about tuition and fees. Therefore, 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.

ASU, NAU, and UA should enhance their class fee-setting processes to further align with fee-setting standards and guidelines—As previously mentioned, the universities have established some fee-setting policies and procedures that are consistent with fee-setting standards and guidelines. However, auditors identified several improvements the universities should take to further align their fee-setting process with fee-setting standards and guidelines. Specifically:

- **NAU should establish formal processes for reviewing and approving cost information when setting class fees**—According to NAU, central university administration relies on academic departments' staff expertise for the development of fee rate proposals. As a result, although NAU reported that reviews of detailed cost information occur at the academic department level during the fee proposal process, central university administration does not review and approve cost information for the items and services the fee is intended to support. Further, the expectation that academic departments review detailed cost information is not outlined in NAU's written class fee guidelines document and the guidelines do not specify a requirement for central university administration to review the cost information for class fees that are \$100 or less. Therefore, to help ensure class fees are set at appropriate rates, NAU should develop and implement written policies, procedures, or other guidance outlining 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, similar to ASU and UA, 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.
- **ASU and NAU should identify and make available opportunities for students to provide input on class fees**—ASU and NAU reported that they regularly solicit student input on mandatory fees and differential tuition/program fees during their annual tuition and fee-setting processes. In addition, students provide input on fees during ABOR's public hearings on tuition and fees. However, the universities' annual fee proposals presented to ABOR, which are subject to a public hearing, do not include class fees that are \$100 or less. As permitted by ABOR policy, the universities are authorized to set these fees without ABOR approval. As reported in Table 2 (see page 3), class fees that are \$100 or less make up 97 and 95 percent of the student fees charged by ASU and NAU, respectively. Therefore, ASU and NAU 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. For example, as previously mentioned (see page 12), UA has formed a committee that includes student members to review all class fee proposals. This committee reviewed and approved all 16 UA class fee proposals auditors reviewed. Other universities, such as Colorado State University; the University of California, Los Angeles; and the University of Utah, have established similar committees. Alternatively, ASU and NAU could solicit student input about class fees and/or the process for setting class fees as part of their annual tuition and fee-setting processes or provide other methods for students to provide input on class fees.

- **ASU should develop a process for identifying fees that may no longer be necessary or with rates set too high and for discontinuing fees that are no longer necessary**—As of June 30, 2016, at least 41 of the 56 fees auditors reviewed at all three universities had account balances or were included in combined accounts with balances that exceeded 10 percent of the revenue the fee generated during fiscal year 2016.²¹ ABOR's policies and guidelines do not prohibit the universities from accruing and maintaining fee account balances and in some instances, the universities may accrue account balances over several years to purchase equipment or other large items. However, the account balances may also result from fee revenues not being spent as originally planned, which may indicate that the fees may be unnecessary or have rates that are set too high. As previously discussed (see pages 12 through 13), UA has developed a process to review class fee accounts with year-end balances higher than 15 percent of annual fee revenues to ensure the fee is still necessary and set at an appropriate rate. In addition, NAU has developed a sunset review process to review and renew class fees that provides academic departments with the opportunity to update fee information, such as the fee's purpose or dollar amount, or determine whether the fee should be discontinued.

ASU does not have a formal procedure for identifying fees that may no longer be necessary or with rates set too high and for discontinuing fees that are no longer necessary. Specifically, although ASU reported that its staff conduct reviews of account balances, this process is not outlined in a formal procedure or other written guidance. In addition, for the three ASU class fees auditors reviewed for which ASU separately tracked revenues and expenses, auditors identified account balances that exceeded 10 percent of the revenue the fee generated during fiscal year 2016. Further, the proposals for 2 of the 3 ASU class fees that had account balances of \$441 and \$5,442, which exceeded 10 percent of the revenue the fee generated during fiscal year 2016, did not indicate that the class would be intentionally maintaining an account balance. ASU staff reported that these two classes should not have had year-end account balances and that staff would look into refunding fee revenues to students and adjusting the fee amount. Finally, for the third ASU class fee that had an account balance that exceeded 10 percent of the fiscal year 2016 revenues, ASU collected \$1,060 in revenues from the fee in fiscal year 2016, but did not spend any of these revenues, and prior to fiscal year 2016, the fee's account had accrued a balance of \$2,850 because ASU had not spent all of the revenues it had collected from previous years. In fiscal year 2017, ASU determined this fee was no longer necessary, but continued to charge the fee to students for an additional semester. During the audit, ASU reported that continuing to charge the fee was a mistake and that it planned to refund fee revenues to students who paid the fee during the spring 2017 semester. Written policies, procedures, or other guidance for identifying fees that may no longer be necessary or with rates set too high and for discontinuing fees that are no longer necessary could help reduce the risk of similar errors occurring in the future. Therefore, to help ensure that its fees are set at appropriate rates and that unnecessary fees are discontinued, ASU should develop and implement written policies, procedures, or other guidance for conducting regular reviews of fees to determine if they are still necessary and set at appropriate rates. For example, similar to NAU and UA, it could develop a process for identifying and reviewing fees with relatively large account balances, or it could implement a sunset review process or require regular renewals of class fees.

- **NAU should develop processes for reviewing class fee spending to ensure fee revenues are used for approved purposes and that fees are still necessary and set at an appropriate rate**—Although NAU reported that it has developed processes to review class fees, it has not developed comprehensive policies and procedures to guide these processes. Specifically, NAU reported that during its annual budgeting

²¹ The 41 fees that had account balances or were included in combined accounts with balances that exceeded 10 percent of fee revenue generated during fiscal year 2016 were as follows: 28 had balances exceeding between 10 and 49 percent of fee revenue, 8 had balances exceeding between 50 and 100 percent of fee revenue, and 5 had balances in excess of 100 percent of fiscal year 2016 fee revenues.

process, it reviews the revenues and expenses for all fee accounts to develop a budget for the following year. Additionally, according to NAU, academic departments are responsible for reviewing class fee revenues and expenses, and determining whether fee revenues were used for approved purposes. However, NAU has not developed written policies, procedures, or other guidance outlining how these reviews should be conducted. Further, as previously mentioned, NAU has developed a sunset review process that requires academic departments to review and renew class fees at least once every 3 years; however, NAU's sunset review policy does not specify what information should be reviewed and considered to determine whether the fee is necessary and the rate is appropriate. For example, as of June 30, 2016, at least 41 of the 56 fees auditors reviewed, including several NAU fees, had account balances or were included in accounts with balances that exceeded 10 percent of the revenue the fee generated during fiscal year 2016. Although the universities may accrue account balances over several years in order to purchase equipment or other large items, account balances may also result from fee revenues not being spent as originally planned, which may indicate that the fees may be unnecessary or have rates that are set too high. Finally, NAU's sunset review policy does not indicate what information central university administration should review to determine whether the fee is still necessary and if the rate is still appropriate. Comprehensive written procedures or other guidance for reviewing class fee spending and conducting sunset reviews of fees could help ensure that fee revenues are used for approved purposes and that fees are still necessary and have appropriate rates.

NAU reported that it plans to incorporate reviews of class fee spending into its existing annual budgeting and sunset review processes. Therefore, NAU should develop and implement written policies, procedures, and other guidance to direct academic departments' review of class fee spending to help ensure that fee revenues are used for approved purposes. These written policies, procedures, or other guidance should include 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. For example, NAU could develop a process for central university administration staff to periodically audit or spot check academic departments' reviews of class fee revenue spending. Additionally, it could direct academic departments to review account balances to determine if the fee is still necessary and if the rate is still appropriate.

Recommendations

- 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.
- 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.
- 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.

- 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.
- 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.
- 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.
- 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.
- 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.
- 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.
- 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;
 - 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

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



OTHER PERTINENT INFORMATION

ASU charges a Resident Surcharge fee that substitutes for a tuition increase

Arizona State University (ASU) charges a mandatory Resident Surcharge fee to Arizona-resident undergraduate and graduate students each semester in addition to tuition and fees. Although the Arizona Board of Regents (ABOR) initially approved ASU's proposal to implement a one-time, temporary Resident Surcharge fee instead of raising tuition for resident students for fiscal year 2016, ABOR has continued to approve the Resident Surcharge fee at a reduced rate, as well as additional tuition increases. ASU reported that it considers the Resident Surcharge fee a source of revenue to supplement tuition revenues, and it has used surcharge revenues similar to tuition revenues.

Resident Surcharge fee approved as one-time fee to offset decreased state appropriations, but has been renewed in subsequent years—In its fiscal year 2016 tuition proposal, ASU proposed implementing a one-time, one-year temporary Resident Surcharge fee at an annual rate of \$320 per resident student to offset decreased State General Fund appropriations instead of increasing its resident tuition rate for fiscal year 2016.²² Specifically, in fiscal year 2016, ASU anticipated receiving approximately \$53.3 million less in State General Fund appropriations than it received in fiscal year 2015, which the university determined was a decrease in funding of approximately \$1,100 per resident student.²³ According to ABOR meeting minutes, ASU calculated the per student Resident Surcharge fee amount to offset approximately 25 percent of this per student reduction and generate approximately \$12.9 million of revenue.

In its fiscal year 2017 tuition proposal, ASU proposed extending the one-year Resident Surcharge fee and making the termination of the Resident Surcharge fee conditional on the restoration of at least half of the fiscal year 2016 reduction in State General Fund appropriations. ASU also reported to ABOR that it planned to reduce the Resident Surcharge fee as state appropriations increased. ABOR approved ASU's proposals to continue to charge the Resident Surcharge fee at a reduced annual rate of \$270 per student in fiscal years 2017 and 2018. According to ASU, this reduction was made in recognition of an increase in State General Fund appropriations.

ASU uses Resident Surcharge fee revenues similar to tuition revenues—In its fiscal year 2016 tuition proposal, ASU reported that despite ASU's base tuition remaining the same, instituting the surcharge resulted in an "effective tuition increase" equivalent to 3.4 percent for resident undergraduate students and 3 percent for resident graduate students. In contrast, for the same fiscal year, the State's two other universities—Northern Arizona University (NAU) and the University of Arizona (UA)—did not implement a surcharge and instead elected to increase tuition by 3.8 percent and 4.4 percent, respectively, for incoming resident undergraduate students.²⁴ As shown in Table 5 (see page 28), in subsequent years, ASU has increased resident tuition in addition to continuing to charge the surcharge, albeit at a slightly reduced rate from the initial rate charged in fiscal year 2016.

²² Although the universities charge student tuition and fees on a per-semester basis, the annual rate represents the total fee amount charged for the fall 2015 and spring 2016 semesters.

²³ According to ASU's fiscal year 2016 *Comprehensive Annual Financial Report*, State General Fund appropriations in fiscal year 2016 were approximately \$56.7 million less than fiscal year 2015.

²⁴ NAU and UA instituted tuition guarantee programs in fiscal year 2009 and fiscal year 2015, respectively, whereby tuition increases are not applicable to continuing students.

Table 5**Changes in ASU’s fall and spring tuition and Resident Surcharge fee for undergraduate resident students
Fiscal years 2015 through 2018**

	Resident Surcharge fee	Tuition	Total	Percent change from prior year
2015		\$9,484	\$ 9,484	
2016	\$320	9,484	9,804	3.4%
2017	270	9,684	9,954	1.5
2018	270	9,834	10,104	1.5

Source: Auditor General staff analysis of ASU's undergraduate resident tuition and Resident Surcharge fee rates for fiscal years 2015 through 2018 published on ASU's website.

Although all of ASU’s Arizona-resident undergraduate and graduate students must pay the surcharge, ASU reported that it does not consider the surcharge to be a mandatory fee but rather a source of revenue to supplement tuition revenues. As such, ASU has used surcharge revenues similar to tuition revenues. Specifically, in fiscal year 2016, ASU collected approximately \$13.7 million from the surcharge and combined these revenues with other unrestricted State General Fund appropriations, tuition and fees, and other revenues, and used them to pay for educational and general expenses, such as instructional expenses.



Universities' fees reviewed by auditors

As permitted by the Arizona Board of Regents' (ABOR) fee-setting policies and guidance, the State's universities—Arizona State University (ASU), Northern Arizona University (NAU), and the University of Arizona (UA)—have established several mandatory fees, differential tuition/program fees, and class fees. Auditors selected a sample of 56 fees charged to students in fiscal year 2016 to determine how fee revenues were spent, including whether revenues were spent for approved purposes (see Appendix E, pages e-1 through e-2 for additional information on how this sample was selected). Additionally, during the course of the audit, auditors identified three other nonacademic fees that the universities charge students. Table 6 (pages a-1 through a-5) provides additional information about the amount of fee revenues collected, expenses, unspent account balances, and fee purposes for the six mandatory fees, six differential tuition/program fees, and three other nonacademic fees auditors reviewed. Table 7 (pages a-6 through a-12) provides additional information about the amount of fee revenues collected, expenses, unspent account balances, and fee purposes for the 44 classes with fees auditors reviewed. The universities deposited the class fee revenues for 38 of the 44 sampled class fees auditors reviewed into combined accounts with other class fee revenues. Table 7 provides information about these combined fee accounts, including the number of classes with fee revenues potentially deposited into combined accounts, the range of fee amounts, and information about the specific class fee auditors sampled.

Table 6
Mandatory fees, differential tuition/program fees, and other nonacademic fees reviewed by auditors, including the amount of fee revenues collected, expenses, unspent account balances, and fee purposes
Fiscal year 2016
(In thousands)

Annual fee amount	Revenues	Expenses	Unspent account balance	Fee purpose and examples of expenses
ASU				
Mandatory fees				
Student Athletics fee \$150	\$10,577	\$10,750	\$0	<p>Purpose: Provide cost-free unlimited access to all regular season ASU sports, ensures students have access to 25 percent of the seating in all athletic venues, and ensures that tuition revenue will only support core academic programs and services.</p> <p>Expenses: Grants, scholarships, and stipends; travel costs, including recruiting costs; outside services; administrative costs; advertising; food; room and board; materials and supplies; books/reference materials; and outside services.¹</p>

Table 6 continued

Annual fee amount	Revenues	Expenses	Unspent account balance	Fee purpose and examples of expenses
Technology fee \$100	10,226	10,225	1 ²	<p>Purpose: Pays for technology initiatives, including implementation of ASU's wireless network, delivering university-licensed software to all students, increasing the number of technology-enabled classrooms, reducing dependence on computing labs, and expanding and improving online self-service environment.</p> <p>Expenses: Software; communication costs; student salaries and related benefits; financial aid set-aside funding; furniture and equipment, including microcomputers; and outside services.</p>
Differential tuition/program fees				
Undergraduate business differential tuition \$800	9,947	9,561	584	<p>Purpose: Efforts to retain, tutor, and support business students.</p> <p>Expenses: Employee and student salaries and related benefits and administrative costs related to business career center, academy, student engagement, advising, and recruiting activities; and financial aid set-aside funding.</p>
Speech and Hearing Science program fee \$800	319	327	0 ²	<p>Purpose: Maintain and enhance the learning environment for students in the Natural Sciences, including the use of equipment.</p> <p>Expenses: Employee salaries and related benefits; financial aid set-aside funding; and networking fees.</p>
Other fees				
Resident Surcharge fee \$270	13,702 ³	Not applicable ³	Not applicable ³	<p>Purpose: Offsets state budget reductions.</p> <p>Expenses: Educational and general expenses, such as instructional expenses.³</p>
NAU				
Mandatory fees				
Information Technology fee \$216	5,458	2,774	2,534	<p>Purpose: Pays for the IT security enhancements project, software updates, and improvements in the campus network design.</p> <p>Expenses: Software licensing and maintenance; and employee and student salaries and related benefits.</p>
Green fee \$10	208	147	211	<p>Purpose: Pays for sustainable projects on campus.</p> <p>Expenses: Employee and student salaries and related benefits; furniture and equipment, including manual treadmills, computer servers, and computer tablets; materials and supplies, including hats; travel costs; registration and conference fees; and external services, including speakers.</p>

Table 6 continued

Annual fee amount	Revenues	Expenses	Unspent account balance	Fee purpose and examples of expenses
Program fees				
Undergraduate business program fee \$580	629	478	148	Purpose: Pays for student services, such as academic and career advisors, student-orientated information technology, student success initiatives, and scholarships. Expenses: Employee and student salaries and related benefits; computers; financial aid set-aside funding; travel costs; and food.
Graduate athletic training program fee \$1,000	15	5	17	Purpose: Set up a graduate program in athletic training and pay for staffing and technical resources. Expenses: Employee and student salaries and related benefits; financial aid set-aside funding; and external services.
Other fees				
Transportation fee \$100	1,398	2,657 ⁴	(713)	Purpose: Support a portion of the operating costs to provide shuttle services and other transportation-related expenses. Students that purchase a parking permit do not pay this fee. Expenses: Employee and student salaries and related benefits; vehicles; maintenance and repair; administrative overhead; external services, primarily consulting services; and fleet vehicle fuel. ⁴
UA				
Mandatory fees				
Information Technology and Library fee \$480	19,777	20,631 ⁵	4,495 ⁵	Purpose: Enhance the university's student learning environment and increase UA's capacities to meet digital environment expectations by directing the fee to upgrade and expand the university's capacity to provide this essential operating environment. Expenses: Employee and student salaries and related benefits; administrative costs; networking costs; library materials; software licenses and royalties; furniture and equipment; and technical consultants. ⁵

Table 6 continued

Annual fee amount	Revenues	Expenses	Unspent account balance	Fee purpose and examples of expenses
Health and Recreation fee \$300	11,775	11,151	2,104	<p>Purpose: Sustain student health services (both medical and counseling/psychological services) as well as support operational, maintenance, and service costs for the recreation facilities and programs.</p> <p>Expenses: Employee and student salaries and related benefits; transfers to other accounts primarily supporting employee and student salaries and related benefits and administrative costs of other accounts, such as the Dean of Students and Disability Resource Center; repair and maintenance; communications; medical and hospital services; supplies; administrative costs; and architectural and engineering fees.</p>
Differential tuition/program fees				
Undergraduate upper division management differential tuition \$1,800	3,694	3,680	110	<p>Purpose: Investments in the Eller College of Management's undergraduate programs' quality through hiring more full-time faculty, expanding technology, improving internships and career services, improving extracurricular activities, and providing support for existing services.</p> <p>Expenses: Employee salaries and related benefits; financial aid set-aside funding; and administrative costs.</p>
Undergraduate criminal justice, political science, or public management and public policy program fee \$900	824	798	1	<p>Purpose: Pay for scholarships, support services, and professional development for students in the program.</p> <p>Expenses: Employee salaries and related benefits; financial aid set-aside funding; administrative costs; scholarships; and travel.</p>
Other fees				
Student Support fee \$0 ⁶	None ⁶	None ⁶	None ⁶	<p>Purpose: Supports career services and other student support programs.</p> <p>Expenses: None.⁶</p>

Table 6 continued

- ¹ According to an ASU official, the recruiting expenses were for student-athlete recruitment.
- ² ASU's practice for certain fee revenues is to combine them in central accounts and establish expense budgets for the appropriate departments based on estimated revenues. According to ASU, budgetary controls within the accounting system ensure that departments' expenses cannot exceed those established in the expense budgets; however, fee revenues are reconciled during the year and ASU's budget office authorizes adjustments to expense budgets to reflect actual revenue collections during the fiscal year. Consequently, ASU does not maintain unspent balances for the specific fees that are combined and instead uses its budgeting process to ensure revenue collections do not exceed expenses. Because auditors could not determine if the Technology fee had an accumulated unspent balance, the excess of the fiscal year 2016 fee revenue over its expenses was reported. Similarly, the Speech and Hearing Program fee's unspent balance is reported as zero because the fiscal year 2016 reported fee expenses exceeded the revenues and, according to ASU, the excess expenses were allowable and were paid for with other monies.
- ³ Revenues from ASU's Resident Surcharge fee were combined with other unrestricted State General Fund appropriations, tuition and fees, and other revenues during fiscal year 2016, and used to pay for educational and general expenses, such as instructional expenses; therefore, the expenses and unspent balance are not separately tracked.
- ⁴ NAU's Transportation fee revenues were combined with approximately \$84,000 of other revenues during fiscal year 2016.
- ⁵ UA's Information Technology and Library Fee accounts were combined with a \$1.5 million transfer from another account that was established for a wireless network refresh.
- ⁶ UA's Student Support Fee was not charged to students until fiscal year 2017.

Source: Auditor General staff analysis of ASU's, NAU's, and UA's lists of fees charged to students, general ledgers, other information provided by the universities for fiscal year 2016, and fee documentation.

Table 7

Class fees reviewed by auditors, including the amount of fee revenues collected, expenses, unspent account balances, and fee purposes
Fiscal year 2016

Class and fee amount	Revenues	Expenses	Unspent account balance	Fee purpose and examples of expenses
ASU				
ART 479: 3D Fibers Fee: \$50	\$ 550	\$ 447	\$ 441 ¹	Fee purpose: Expendable materials. Expenses: Supplies; books and reference materials; and outside services.
ERG 313: Mechanical Systems Project II Fee: \$50	4,850	2,303	5,442 ¹	Fee purpose: Course project and classroom assistant. Expenses: Supplies, including chemicals.
GIT 333: Printing Technology Fee: \$50	1,060		3,910 ^{1,2}	Fee purpose: Expendable materials. Expenses: None. ²
Combined fee accounts³				
iCourses⁴ Fee: \$50 <u>Sampled classes</u> ACC 382: Accounting and Financial Analysis EDT 503: Instructional Media Design MCO 550: Issues in Coverage of Business and Economics PSY 598: Quantitative Research III TWC 514: Visualizing Data and Information	9,493,080	9,493,450	(370)	Sampled classes fee purpose: Technology expenses. Combined expenses: Employee salaries and related benefits; outside services; software; and communications equipment.
Ceramic classes —includes potentially 11 classes Fees: \$50 to \$100 <u>Sampled class</u> ART 261: Ceramic Survey Fee: \$85	16,110	18,234	(755)	Sampled class fee purpose: Expendable materials. Combined expenses: Furniture; supplies; and books and reference materials.
New College of Interdisciplinary Arts and Sciences communication classes —includes potentially 7 classes Fees: \$50 to \$65 <u>Sampled class</u> COM 453: Communication Training/Development Fee: \$65⁵	65,945	58,542	201	Sampled class fee purpose: Instructional assistants; computer hardware; and software. Combined expenses: Employee and student salaries and related benefits; outside services; and networking costs.

Table 7 continued

Class and fee amount	Revenues	Expenses	Unspent account balance	Fee purpose and examples of expenses
<p>Criminal Justice additional online fees—includes potentially 65 classes Fees: \$25 to \$100 (most \$25)⁶</p> <p><u>Sampled classes</u> CRJ 306: Race, Ethnicity, Crime Fee: \$25</p> <p>CRJ 350: Law and Social Control Fee: \$25</p> <p>CRJ 461: Domestic Violence Fee: \$25</p>	262,840	209,208	64,380 ⁶	<p>Sampled classes fee purposes: Personnel expenses associated with online course delivery. Combined expenses: Student salaries and related benefits, networking costs, risk-management insurance.</p>
8,560	Unknown	Unknown		
4,685	Unknown	Unknown		
7,510	Unknown	Unknown		
<p>School of International Letters and Cultures Course (SILC) lower division classes—includes potentially 134 classes Fees: \$25 to \$30 (most \$30)</p> <p><u>Sampled class</u> IDN 102: Elementary Indonesian II Fee: \$30</p>	244,752	282,009	45,413	<p>Sampled class fee purpose: SILC facilities and services, personnel and capital equipment technology expenses. Combined expenses: Employee and student salaries and related benefits; outside services; networking costs; data storage and servers; risk management insurance; books and reference materials; and supplies.</p>
60	Unknown	Unknown		

NAU

Combined fee accounts³

<p>Biology classes—includes potentially 46 classes Fees: \$6 to \$175</p> <p><u>Sampled class</u> BIO 338L: Exercise Physiology Lab Fee: \$70</p>	70,072	90,105	39,610	<p>Sampled class fee purpose: Lab equipment such as stethoscopes. Combined expenses: Supplies; furniture and equipment; travel costs; and food.⁸</p>
11,480	9,180 ^{7,8}	Unknown		
<p>College of Arts and Letters classroom mediated technology classes—includes potentially 246 classes Fees: \$10 or \$20 (most \$10)</p> <p><u>Sampled classes</u> CCS 350WH: Words at Work – Honors Fee: \$10</p> <p>REL 201: Indigenous Religions Fee: \$10</p>	122,568	187,929	38,173	<p>Sampled classes fee purposes: Acquisition and upkeep of the projector, computer, server, related media required, and underlying structural support for technology. Combined expenses: Furniture and equipment, including computers, printers, and scanners; audio/visual and other supplies.</p>
10	Unknown	Unknown		
200	Unknown	Unknown		

Table 7 continued

Class and fee amount	Revenues	Expenses	Unspent account balance	Fee purpose and examples of expenses
<p>Various construction management classes—includes potentially 26 classes Fees: \$35 to \$175</p> <p><u>Sampled class</u> CM 225: Concrete and Masonry Systems Fee: \$50</p>	63,925	29,886	27,226	<p>Sampled class fee purpose: Expendable materials, special instructional support (i.e., student workers to assist primary instructor in various duties such as lab/class preparation), computers, software, other technology needs. Combined expenses: Student salaries and related benefits; registration and conference fees; supplies; equipment; vehicle and office rental costs; and outside services.</p>
<p>Various engineering and computer science classes—includes potentially 135 classes Fees: \$10 to \$50</p> <p><u>Sampled classes</u> CS 200: Introduction to Computer Organization Fee: \$20</p> <p>CS 486C: Capstone Experience Fee: \$20</p>	151,853	157,742	24,096	
<p>Composition Computer Lab English classes—primarily ENG 105 but 1 other class included Fees: \$25 to \$95</p> <p><u>Sampled class</u> ENG 105: Critical Reading/ Writing in University Fee: \$95</p>	314,287	340,132	56,097	<p>Sampled class fee purpose: E-learning to enhance student learning and to purchase access codes for an online writing guide. Combined expenses: Professional dues, fees, and subscriptions; computers, printers, and scanners; employee and student salaries and related benefits, including for the English Composition Program Coordinator; print and copy services, including copy machine charges; and supplies.</p>
<p>Classes with student teachers—includes potentially 22 classes Fees: \$85 to \$400 (most \$400)</p> <p><u>Sampled classes</u> ESE 591: Special Education S.T. – High Incidence Fee: \$400</p> <p>TSM 595: Internship Secondary Fee: \$400</p>	228,276	156,863	92,510	
				<p>Sampled classes fee purposes: Student-teaching placements, including offsetting professional teachers for contextual training they provide and travel costs. Combined expenses: Teacher stipends and travel costs.</p>

Table 7 continued

Class and fee amount	Revenues	Expenses	Unspent account balance	Fee purpose and examples of expenses
<p>Lumberjack Mathematics Center classes—includes potentially 4 classes Fees: \$25 to \$155</p> <p><u>Sampled class</u> MAT 108: Algebra for Precalculus Fee: \$125</p>	536,384	693,740	77,532	<p>Sampled class fee purpose: Support e-resources and required adaptive instructional software; and replace computing equipment in the math center.</p> <p>Combined expenses: Professional dues, fees, and subscriptions; and computers, printers, and scanners.</p>
<p>150,495</p>	Unknown	Unknown		
<p>Various business classes with technology needs—includes potentially 8 classes Fees: \$30 to \$79</p> <p><u>Sampled class</u> MGT 490CH: Strategic Management--Honors Fee: \$30</p>	51,738	101,918	16,296	<p>Sampled class fee purpose: Support advanced technology that would not otherwise be available to students, including remote access and hands-on laboratories.</p> <p>Combined expenses: Testing-center program director salary and related benefits; and software licensing and maintenance.</p>
<p>210</p>	Unknown	Unknown		
<p>Music lesson fees—includes potentially 86 classes Fees: \$30 to \$150</p> <p><u>Sampled class</u> MUS 507: Suzuki Pedagogy Violin Fee: \$30</p>	136,964	349,591 ⁸	(13,059)	<p>Sampled class fee purpose: Purchase, maintain, and upgrade classroom equipment, including, but not limited to, pianos, piano tuning and upkeep, music stands, and rehearsal chairs.</p> <p>Combined expenses: Furniture and equipment; outside services, such as consultants, speakers, and performers; employee and student salaries and related benefits; and supplies.⁸</p>
<p>120</p>	Unknown	Unknown		
<p>Photography classes—includes potentially 21 classes Fees: \$25 to \$100 (most \$100)</p> <p><u>Sampled class</u> PHO 100: Introduction to Photography Fee: \$100</p>	57,971	49,411	9,033	<p>Sampled class fee purpose: Expendable materials; off-campus field trip, specialized equipment, or facilities rental; special instructional support, such as guest speakers; and maintenance of the campus photography studio.</p> <p>Combined expenses: Supplies; student wages and related benefits; and software license and maintenance fees.</p>
<p>17,000</p>	Unknown	Unknown		
<p>Parks and Recreation management classes—includes potentially 21 classes Fees: \$5 to \$400</p> <p><u>Sampled class</u> PRM 360: Interpretation for Parks & Recreation Fee: \$20</p>	45,864	41,245	44,346	<p>Sampled class fee purpose: Computer lab costs and audio/visual upgrades for visual presentation.</p> <p>Combined expenses: Supplies; outside services, including speakers; travel costs; computer, printers, and scanners; food; and lease/rental costs.</p>
<p>2,180⁷</p>	1,940 ⁷	240 ⁷		

Table 7 continued

Class and fee amount	Revenues	Expenses	Unspent account balance	Fee purpose and examples of expenses
UA				
AME 487: Guided Self-Study in Mechatronics Fee: \$50	1,050	839 ¹⁰	220 ¹⁰	Fee purpose: Expendable materials. Expenses: Operating supplies and administrative costs.
ECOL 582: Ichthyology Fee: \$25	650 ¹¹	681 ¹¹	Unknown ¹¹	Fee purpose: Field trips. Expenses: Travel costs; educational supplies; and administrative costs.
SAS 100AX: Math Success Strategies Fee: \$91	53,417	52,542	5,878	Fee purpose: Tutor salaries, materials and handouts, and a computer. Expenses: Employee and student salaries and related benefits and administrative costs.
Combined fee accounts³				
iCourses⁴ Fee: \$50 <u>Sampled classes</u> ESOC 314: Theories of New Media FCSC 301: Applying Critical Thinking to Discourse in Family and Consumer Sciences Organizations	2,268,801	1,178,211	1,856,441	Sampled classes fee purpose: Full-scale build-out of the UA's online degree programs. Combined expenses: Cloud services; outside services, such as technical consultants; software licensing; employee and student salaries and related benefits; and administrative costs.
Art classes —includes potentially 76 classes Fees: \$10 to \$100 <u>Sampled classes</u> ART 273: Beginning Art Practices in Ceramics Fee: \$99 ART 496A: Career Development for Visual Artists Fee: \$75 ART 496B: Digital Illustration/Painting Fee: \$100	134,893 3,267 2,175 1,600	116,443 2,815 ⁷ 1,967 ⁷ 897 ⁷	17,156 599 ⁷ 208 ⁷ 703 ⁷	Sampled classes fee purposes: ART 273 and ART 496B—expendable materials; ART 496A—guest lecturer fees. Combined expenses: Educational and other supplies; furniture and equipment; student salaries and related benefits; printing and lithography; outside services, including lecturers' fees and stipends; and administrative costs.
Computer Science classes —includes potentially 32 classes Fees: \$35 <u>Sampled classes</u> CSC 127A: Introduction to Computer Science (1st semester) Fee: \$35 CSC 127B: Introduction to Computer Science (2nd semester) Fee: \$35	137,538 25,841 13,790	106,685 19,760 ⁷ 10,545 ⁷	60,167 Unknown Unknown	Sampled classes fee purposes: Supports computer labs in the Computer Science Department and School of Information: Science, Technology, and Arts. Combined expenses: Equipment; employee salaries and related benefits; data-processing services; and administrative costs.

Table 7 continued

Class and fee amount	Revenues	Expenses	Unspent account balance	Fee purpose and examples of expenses
<p>Music individual studies class fees—includes potentially 163 classes Fees: \$105 or \$125</p> <p><u>Sampled class</u> MUSI 285: Music Individual Studies Fee: \$125</p>	88,601	78,932	6,277	<p>Sampled class fee purpose: Private instruction faculty, piano service, and expendable materials. Combined expenses: Employee salaries and related benefits, and administrative costs.</p>
	8,625	7,659 ⁷	656 ⁷	
<p>School of Natural Resources & the Environment (SNRE) classes with field trips—includes potentially 16 classes Fees: \$10 to \$75</p> <p><u>Sampled class</u> RAM 382: Rangeland Plant Communities of the West Fee: \$40</p>	7,720	3,824	3,896	<p>Sampled class fee purpose: Field trip transportation. Combined expenses: Travel costs and administrative costs.</p>
	840 ⁹	Unknown	Unknown	
<p>SNRE classes utilizing the teaching computer laboratory—includes potentially 13 classes Fees: \$50 to \$100 (most \$50)</p> <p><u>Sampled class</u> RNR 403: Applications of Geographic Information Systems Fee: \$50</p>	18,957	44,808	12,877	<p>Sampled class fee purpose: Computer refreshing and a portion of a lab assistant’s salary. Combined expenses: Equipment; employee salaries and related benefits; and administrative costs.</p>
	4,450 ⁹	Unknown	Unknown	
<p>Various special education, rehabilitation, and school psychology classes—includes potentially 12 classes Fees: \$10 to \$90</p> <p><u>Sampled class</u> SERP 602: Early Childhood Assessment and Intervention Fee: \$85</p>	13,002	6,390	22,721	<p>Sampled class fee purpose: Testing instruments. Combined expenses: Travel costs; educational supplies; and administrative costs.</p>
	680	1,388 ⁷	1,077 ⁷	
<p>Theatre Arts classes—includes potentially 17 classes Fees: \$10 to \$40</p> <p><u>Sampled classes</u> TAR 416: Advanced Rendering Fee: \$12 TAR 497V: Musical Theatre Private Voice Fee: \$40</p>	9,797	8,362	2,500	<p>Sampled classes fee purposes: TAR 416—models; TAR 497V—piano accompanist. Combined expenses: Employee and student salaries and related benefits; supplies; and administrative costs.</p>
	336	280 ⁷	56 ⁷	
	1,520	1,520 ⁷	0 ⁷	

Table 7 continued

- ¹ ASU staff reported that the university was in the process of reviewing and processing refunds to students enrolled in ART 479, ERG 313, and GIT 333 as of November 2017.
- ² ASU's GIT 333 class fee account had no expenses for fiscal year 2016 and had an ending balance of \$3,910. ASU staff reported that they had identified that the class fee was no longer needed in December 2016. However, due to an administrative oversight, the fee was still charged to students in the spring 2017 semester. ASU staff reported that they refunded revenues to students who paid this fee in the spring 2017 semester.
- ³ As discussed in Finding 1 (see pages 13 through 14), the universities' practice is to combine revenues from multiple class fees in single accounts without otherwise separately accounting for individual fees' revenues or spending in some cases, such as for fees with relatively small revenues or when revenues from multiple fees were used for shared resources. The universities deposited most class fees auditors reviewed with other class fees into combined accounts during fiscal year 2016. As such, auditors reviewed the expense detail for the combined class fees revenues, but could not always determine how the class fee revenues for the specific sampled classes were spent apart from the other fee revenue. Auditors reviewed and requested additional information to determine the reasonableness of the amounts presented or, if not provided, attempted to estimate the fee revenues using enrollment records.
- ⁴ ASU and UA charge a standard \$50 fee for most online classes taken by on-campus students.
- ⁵ According to ASU, the \$65 fee for COM 453 was approved originally for students that took the class online through the New College of Interdisciplinary Arts and Sciences. When ASU established its iCourse fee, the fee amount remained \$65 for students in ASU's online program but was changed to \$50 for on-campus students who took the class online. In fiscal year 2016, no students were charged the \$65 fee because the class was not offered to ASU online students during this fiscal year. The amounts reported for the fee are related to the \$50 COM 453 fee.
- ⁶ ASU charged a class fee for its criminal justice online classes during fiscal year 2016 ranging from \$25 to \$100 with most fees charged at \$25. The fees were in addition to a \$50 iCourse fee (see footnote 4). According to ASU staff, the unspent balance is being used for refreshing and rebuilding online courses.
- ⁷ As discussed in Finding 1 (see pages 13 through 14), the universities' practice is to deposit revenues from multiple class fees into combined accounts without otherwise separately accounting for individual fees' revenues or spending in some cases, such as for lower-revenue fees or when revenues from multiple fees will be used for shared resources. As a result, these amounts were provided by the applicable university, and auditors were unable to reconcile the information to the universities' accounting records or otherwise determine the reasonableness of the amounts presented. UA reported that as of fiscal year 2017, it had implemented a new process to better account for class fee expenses that involves creating separate accounts for all class fees with annual revenues over \$5,000, and using combined accounts with sub-accounts and project codes for class fees that generate less than \$5,000 annually (see Finding 1, page 14).
- ⁸ Biology class fees at NAU were also combined with \$6,000 of NAU Foundation reimbursements. Similarly, music lessons fees were combined with a \$175,000 NAU Foundation reimbursement.
- ⁹ Class fee revenues were estimated by auditors using enrollment information; however, NAU and UA did not provide an estimate and auditors could not otherwise determine if the revenue was reasonable.
- ¹⁰ UA's AME 487 fee revenues and expenses were accounted for separately in a sub-account; however, administrative costs were not included in the sub-account and were instead included in a combined fee account. The expenses presented by auditors include a calculation for the administrative costs. In addition, the unspent balance was provided by UA; however, auditors were unable to reconcile the information with the accounting records or otherwise determine the accuracy of the amounts presented.
- ¹¹ According to UA, ECOL 582 revenues and expenses include ECOL 482 because the classes are the same except one is offered to undergraduates and the other to graduate students. In addition, although UA separately accounted for the ECOL 482/582 expenses in a sub-account, it did not account for the revenues or administrative costs separately during fiscal year 2016, and instead it accounted for them in a combined account. UA provided the revenue amounts presented and expense amounts include the related administrative costs; however, the unspent balance was not available for fiscal year 2016.

Source: Auditor General staff analysis of ASU's, NAU's, and UA's lists of fees charged to students, general ledgers, other information provided by the universities for fiscal year 2016, and class fee documentation for reviewed class fees.



Universities' mandatory and other nonacademic fees

As permitted by the Arizona Board of Regents' (ABOR) fee-setting policies and guidance, the State's universities—Arizona State University (ASU), Northern Arizona University (NAU), and the University of Arizona (UA)—charge mandatory fees that all students at the university must pay, unless specifically excluded. As discussed in Finding 1 (see pages 19 through 20) and Other Pertinent Information (see pages 27 through 28), the universities charge other nonacademic fees to students. These fees pay for general services and benefits available to all students who pay the fees, such as information technology services, use of health and recreation facilities and services, and access to athletics programs and events. Table 8 (pages b-1 through b-4) presents the universities' descriptions of each of the mandatory fees and select other fees that the universities charge, along with their annual rates for incoming full-time resident undergraduate freshman students attending the relevant university's main campus in the fall 2017 and spring 2018 semesters.²⁵

Table 8
Universities' descriptions of mandatory and other nonacademic fees and their annual rates for incoming full-time resident undergraduate freshman students¹
Fall 2017 and spring 2018 semesters

ASU	NAU	UA
Mandatory fees		
Athletics mandatory fees		
Student Athletics fee \$150.00 Provides cost-free, unlimited access to all regular season ASU sports, ensures students have access to 25 percent of the seating in all athletic venues, and ensures that tuition revenue will support only core academic programs and services.	No athletics fee charged.	Student Athletic fee \$100.00 Supports athletics programs, facilities, and improvement of the student and fan experience.
Arizona Financial Aid Trust mandatory fees		
Arizona Financial Aid Trust fee \$98.00 Arizona Revised Statutes §15-1642 authorizes ABOR to establish an Arizona Financial Aid Trust Fund that provides need-based financial aid to students. Statute permits ABOR to charge a student fee of 1 percent of the full-time resident undergraduate tuition rate at each university.	Arizona Financial Aid Trust fee \$80.00 See description under ASU.	Arizona Financial Aid Trust fee \$108.00 See description under ASU.

²⁵ Although the universities charge student tuition and fees on a per semester basis, the annual dollar amounts presented in Table 8 represent the total fee amounts charged for the fall 2017 and spring 2018 semesters.

Table 8 continued

ASU	NAU	UA
Health and Recreation mandatory fees		
<p>Recreation fee \$50.00</p> <p>Supports programs and services at the ASU fitness centers. Monies are used to provide intramural activities, student employment opportunities, fitness classes, workshops, events, and programs.</p> <p>Health and Wellness fee \$80.00</p> <p>Supports the operation of ASU health services. Monies support health education and promotion, primary care, acute emergency care services, travel medicine services, nutritional counseling, and high-demand specialty care.</p>	<p>Health and Recreation fee \$500.00</p> <p>Supports NAU's provision of low-cost health and mental health services, public health efforts, and promotion of healthy lifestyles and choices. The fee also supports free access to a myriad of recreational opportunities and facilities, including cardio and weight equipment, group fitness classes, an Olympic-size swimming pool, basketball courts, volleyball courts, and a climbing wall.</p>	<p>Recreation Center Program fee \$8.10</p> <p>Helps pay for Campus Recreation programs. Revenues primarily support sport clubs, special events to promote health and wellness, staff salaries for team building and leadership programming, and activity classes.</p> <p>Recreation Bond fee \$50.00</p> <p>Pays bonds issued for the construction and expansion of a Student Recreation Center. Although this fee is mandatory, it will cease once the bonds that paid for facility construction and expansion have been retired.</p> <p>Health and Recreation fee \$425.00</p> <p>Provides funding to sustain student health services (both medical and counseling/psychological services) and to support operational, maintenance, and staff costs for recreation facilities and programs. The fee allocation is: Campus Health 53 percent, Campus Recreation 47 percent.</p>
Information Technology mandatory fees		
<p>Technology fee \$100.00</p> <p>Pays for technology initiatives, including implementation of ASU's wireless network, delivering university-licensed software to all students, increasing the number of technology-enabled classrooms, reducing dependence on computing labs, and expanding and improving the online self-service environment.</p>	<p>Information Technology fee \$336.00²</p> <p>Enhances the university's student learning environment and increases NAU's capacities to meet digital environment expectations. Supports a wide array of technologies that are increasingly critical to university students' higher education experience.</p>	<p>Information Technology and Library fee \$535.00</p> <p>Pays for enhancements to UA's digital environment, including wireless access in high-traffic, public locations and in all campus outdoor areas, library materials that are digitally available, and appropriately equipped classrooms.</p>

Table 8 continued

ASU	NAU	UA
Student Program mandatory fees		
<p>Student Programs fee \$60.00</p> <p>Provides value-added programming that supports ASU student needs and interests, including routine appropriations to clubs and organizations, sports clubs, and travel funding to support research and conference attendance. The fee is managed by student government at each ASU campus.</p>	<p>Student Activity fee \$50.00</p> <p>Supports on-campus programs and activities that enhance campus life, including providing students free admission to the Wall Aquatic Center and free fitness classes at the Recreation Center, and supporting the Safe Ride program.</p> <p>Associated Students of Northern Arizona University fee \$46.00</p> <p>Supports NAU student government's operational budget and various programs and services, including extended library hours, student legal aid, study abroad scholarships, and increased funding for student organizations, campus activities, speakers, and performers.</p>	<p>Student Service fee \$150.00</p> <p>Provides support for student programs such as campus safety, student health and counseling services, increased student employment opportunities, and enhanced food options with lower prices. Initial funding priorities were established from a survey administered to all students in the fall 2007 semester. A student advisory committee oversees its use and recommends expenditures to UA's Vice President for Student Affairs.</p>
Miscellaneous mandatory fees		
<p>Student Service Facility fee \$150.00</p> <p>Supports enhancements to existing student centers and fitness facilities and planning and development of new student service facilities to meet the needs of a growing student population.</p>	<p>Green fee \$10.00</p> <p>Supports student sustainability projects, renewable energy installation, improvements in the efficiency of water and energy use, and waste reduction on NAU's Flagstaff campus. Emphasis is placed on carrying out projects that reflect student body preferences and provide cost savings to the university.</p>	<p>Media fee \$6.00</p> <p>Supports the student-run campus media organizations KAMP Radio, UATV, and the Daily Wildcat.</p> <p>Wildcat fee \$6.00</p> <p>Assists with funding programming organized by the student-led Wildcat Events Board, such as concerts, speakers, and social events.</p>
Total mandatory fees: \$688.00	Total mandatory fees: \$1,022.00	Total mandatory fees: \$1,388.10
Other nonacademic fees		
<p>Resident Surcharge fee \$270.00</p> <p>Offsets state budget reductions.</p>	<p>Transportation fee \$150.00</p> <p>Supports a portion of the operating costs to provide shuttle services and other transportation-related expenses. Students that purchase a parking permit do not pay this fee.</p>	<p>Freshman fee \$20.00</p> <p>Supports programs for freshman students.</p> <p>Student Support fee³ \$100.00</p> <p>Supports career services and other student support programs.</p>
Total nonacademic fees: \$270.00	Total nonacademic fees: \$150.00	Total nonacademic fees: \$120.00
Total ASU fees: \$958.00	Total NAU fees: \$1,172.00	Total UA fees: \$1,508.10

Table 8 continued

- ¹ This does not include differential tuition, program fees, class fees, and administrative service fees and charges, such as service fees for credit card payments and late registration charges.
- ² Although NAU considers resident undergraduate students who enroll in seven credit hours as full-time students, the mandatory Information Technology fee rate presented here is for students enrolled in 12 credit hours. Students enrolled in fewer than 12 credit hours pay a reduced rate depending on the number of credit hours in which they are enrolled.
- ³ This is a one-time fee charged to incoming students only.

Source: Auditor General staff review of ABOR materials and each university's website for the fall 2017 and spring 2018 semester fee amounts for incoming freshman students.



ASU, NAU, and UA specific financial tables and revenue composition figures

Arizona State University (ASU), Northern Arizona University (NAU), and the University of Arizona (UA) receive revenue from the tuition and fees they charge to students and from other sources, such as State General Fund appropriations, government grants and contracts, and private gifts, grants, and contracts. In fiscal year 2017, the universities collectively received approximately \$5.1 billion in total revenue, with ASU, NAU, and UA receiving approximately \$2.4 billion, \$578 million, and \$2.1 billion in revenue, respectively (see Tables 9, 10, and 11, pages c-2 through c-6, for each university's financial table). Total university revenue has increased since fiscal year 2007 and the composition of that revenue has changed (see Figures 2, 3, and 4, pages c-3 through c-7, for how each university's revenue and the composition of that revenue has changed between fiscal year 2007 and fiscal year 2017).

Table 9
Schedule of revenue sources and expenses for ASU
Fiscal years 2015 through 2017
(In thousands)

	2015	2016	2017
Revenue sources			
Student tuition and fees ¹	\$1,029,146	\$1,166,644	\$1,260,948
Government grants and contracts	352,148	376,175	379,749
State General Fund appropriations ²	358,525	298,531	314,002
Sales and services ³	212,238	219,257	243,340
Private gifts, grants, and contracts	107,099	157,526	150,970
State share of sales taxes ⁴	26,526	31,075	31,326
Other ⁵	31,608	39,820	61,508
Total revenue sources	2,117,290	2,289,028	2,441,843
Expenses			
Education and general:			
Instruction	686,397	749,722	810,656
Academic support	247,700	265,540	294,706
Research	244,763	261,055	267,303
Scholarships and fellowships	136,675	152,802	187,124
Institutional support	151,613	155,172	152,226
Student services	98,491	111,018	123,377
Operation and maintenance of plant	102,167	108,454	116,456
Public service	36,201	36,807	35,378
Total educational and general	1,704,007	1,840,570	1,987,226
Auxiliary enterprises ³	143,184	147,562	154,794
Depreciation	114,617	116,381	123,705
Interest on debt	53,428	59,972	69,135
Other	9,814	16,039	7,610
Total expenses	2,025,050	2,180,524	2,342,470
Excess of revenues over expenses	\$ 92,240	\$ 108,504	\$ 99,373

¹ Reported student tuition and fee amounts were reduced for scholarship allowances. This means the tuition and fees ASU charged to students for the full cost of services provided were reduced by certain student grants or scholarships awarded to some of those students and used to pay for some or all of their tuition and fees. The deducted grants or scholarships include federal financial aid awarded to students.

² State General Fund appropriations includes appropriations ASU received for the Arizona Financial Aid Trust Fund and capital debt service on research infrastructure projects. The Arizona Financial Aid Trust Fund and research infrastructure revenues are not available for general education use.

³ Sales and services revenue includes charges for goods or services provided to students, faculty, staff, or the public. The revenues collected were for self-supporting activities and should therefore pay for all the costs of providing the goods or services. For example, amounts collected for food services and residence halls are accounted for as sales and services revenue. The auxiliary enterprises expenses generally include the costs for providing these goods and services.

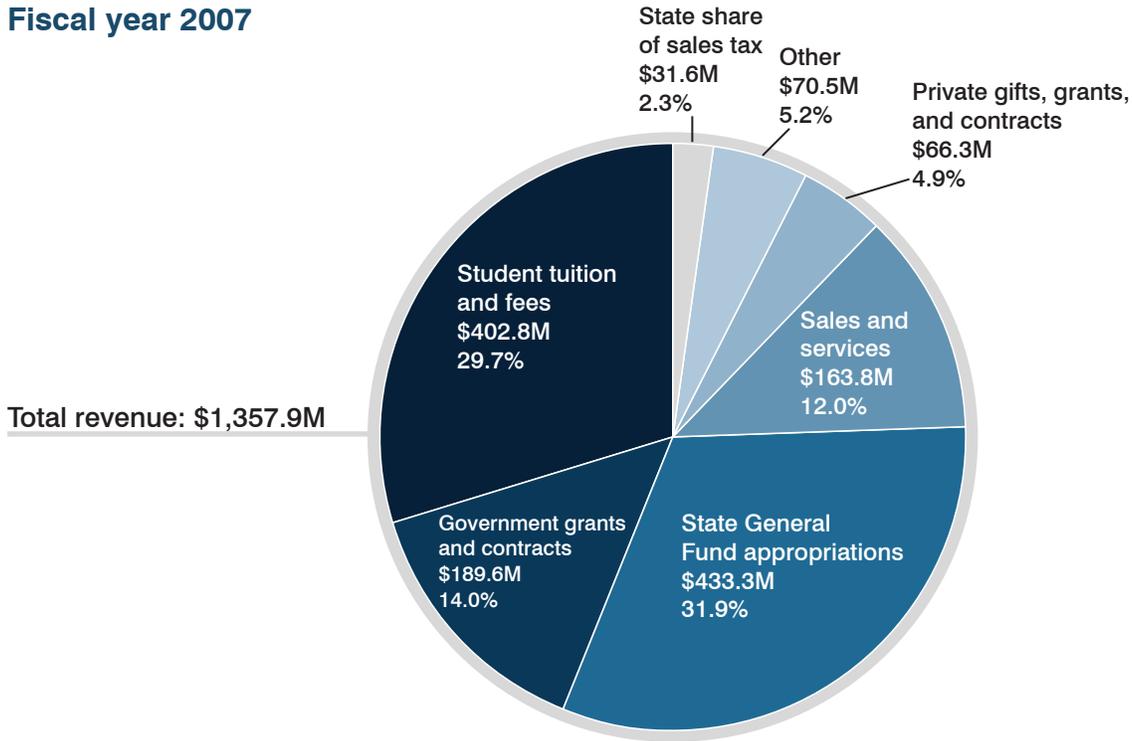
⁴ According to ABOR's website, the state share of sales tax revenue is ASU's portion of Education 2000 (Proposition 301) sales tax monies that help pay for technology and research initiatives. The Board administers these monies and awards them to ASU based on ASU's funding requests for specific initiatives.

⁵ Other revenue includes commitments, grants, and private gifts restricted for capital purposes and additions to permanent endowments.

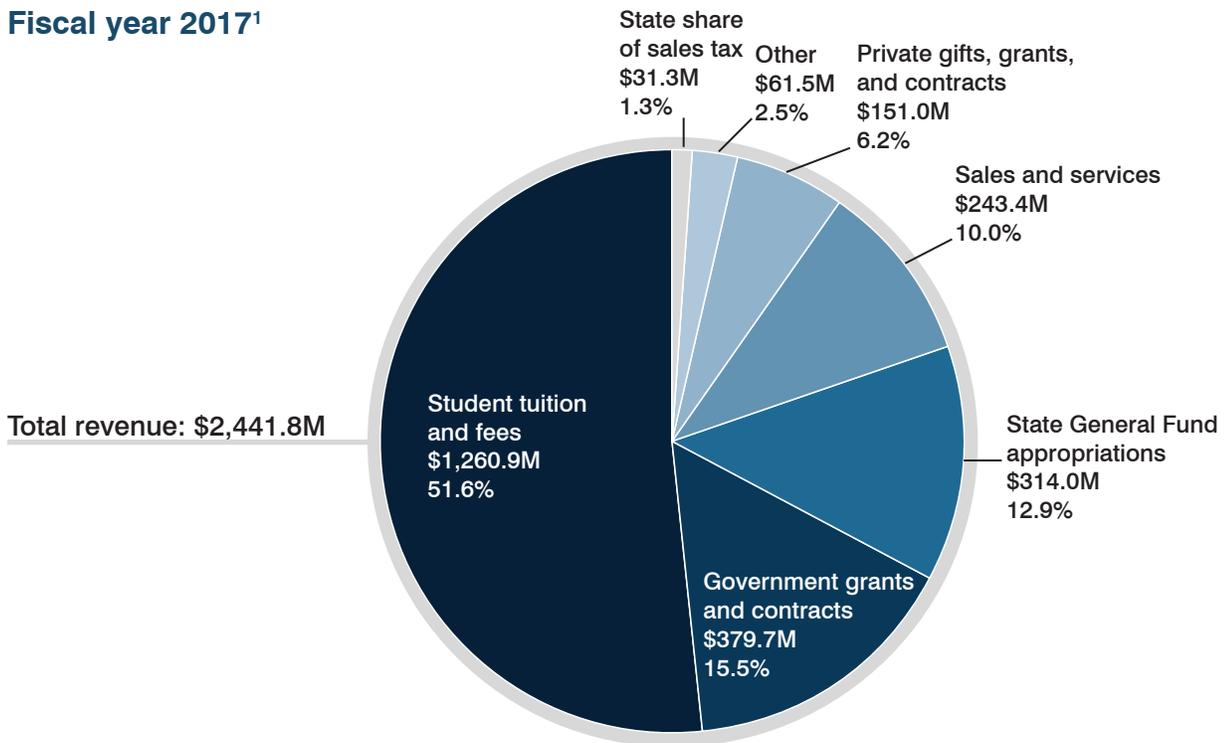
Source: Auditor General staff analysis of ASU's *Comprehensive Annual Financial Report* for the years ended June 30, 2015 through 2017, and other information provided by ASU.

Figure 2
ASU revenues by source
Fiscal years 2007 and 2017
(In millions)

Fiscal year 2007



Fiscal year 2017¹



¹ See footnotes from Table 9 on page c-2.

Source: Auditor General staff analysis of ASU's *Comprehensive Annual Financial Report* for the years ended June 30, 2007, 2016, and 2017, and other information provided by ASU.

Table 10
Schedule of revenue sources and expenses for NAU
Fiscal years 2015 through 2017
(In thousands)

	2015	2016	2017
Revenue sources			
Student tuition and fees ¹	\$205,550	\$217,047	\$237,930
State General Fund appropriations ²	117,853	100,126	104,352
Government grants and contracts	81,946	88,914	94,335
Sales and services ³	55,045	56,886	60,447
Private gifts, grants, and contracts	15,825	16,531	18,423
State share of sales taxes ⁴	13,267	13,827	13,752
Other ⁵	34,175	36,987	48,841
Total revenue sources	523,661	530,318	578,080
Expenses			
Education and general:			
Instruction	167,080	169,385	176,334
Institutional support	57,141	52,447	59,238
Student services	50,335	53,834	54,246
Academic support	36,182	40,506	41,074
Research	25,461	30,142	36,068
Scholarships and fellowships	29,068	31,485	35,290
Operation and maintenance of plant	25,779	29,790	31,003
Public service	27,009	28,163	28,866
Total educational and general	418,055	435,752	462,119
Auxiliary enterprises ³	37,706	38,071	41,067
Depreciation	35,123	37,964	41,538
Interest on debt	22,723	27,187	28,144
Total expenses	513,607	538,974	572,868
Excess (deficit) of revenues over expenses	\$ 10,054	(\$ 8,656)	\$ 5,212

¹ Reported student tuition and fee amounts were reduced for scholarship allowances. This means the tuition and fees NAU charged to students for the full cost of services provided were reduced by certain student grants or scholarships awarded to some of those students and used to pay for some or all of their tuition and fees. The deducted grants or scholarships include federal financial aid awarded to students.

² State General Fund appropriations includes appropriations NAU received for the Arizona Financial Aid Trust Fund and capital debt service on research infrastructure projects. The Arizona Financial Aid Trust Fund and research infrastructure revenues are not available for general education use.

³ Sales and services revenue includes charges for goods or services provided to students, faculty, staff, or the public. The revenues collected were for self-supporting activities and should therefore pay for all the costs of providing the goods or services. For example, amounts collected for food services and residence halls are accounted for as sales and services revenue. The auxiliary enterprises expenses generally include the costs for providing these goods and services.

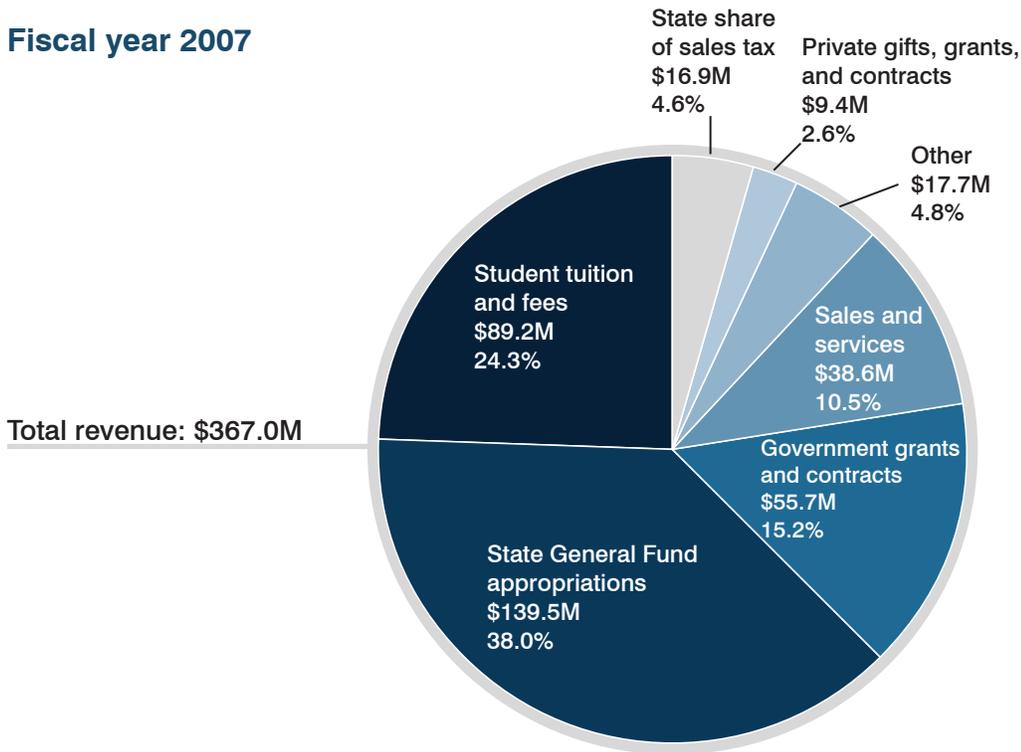
⁴ According to ABOR's website, the state share of sales tax revenue is NAU's portion of Education 2000 (Proposition 301) sales tax monies that help pay for technology and research initiatives. The Board administers these monies and awards them to NAU based on NAU's funding requests for specific initiatives.

⁵ Other revenue includes commitments, grants, and private gifts restricted for capital purposes and additions to permanent endowments.

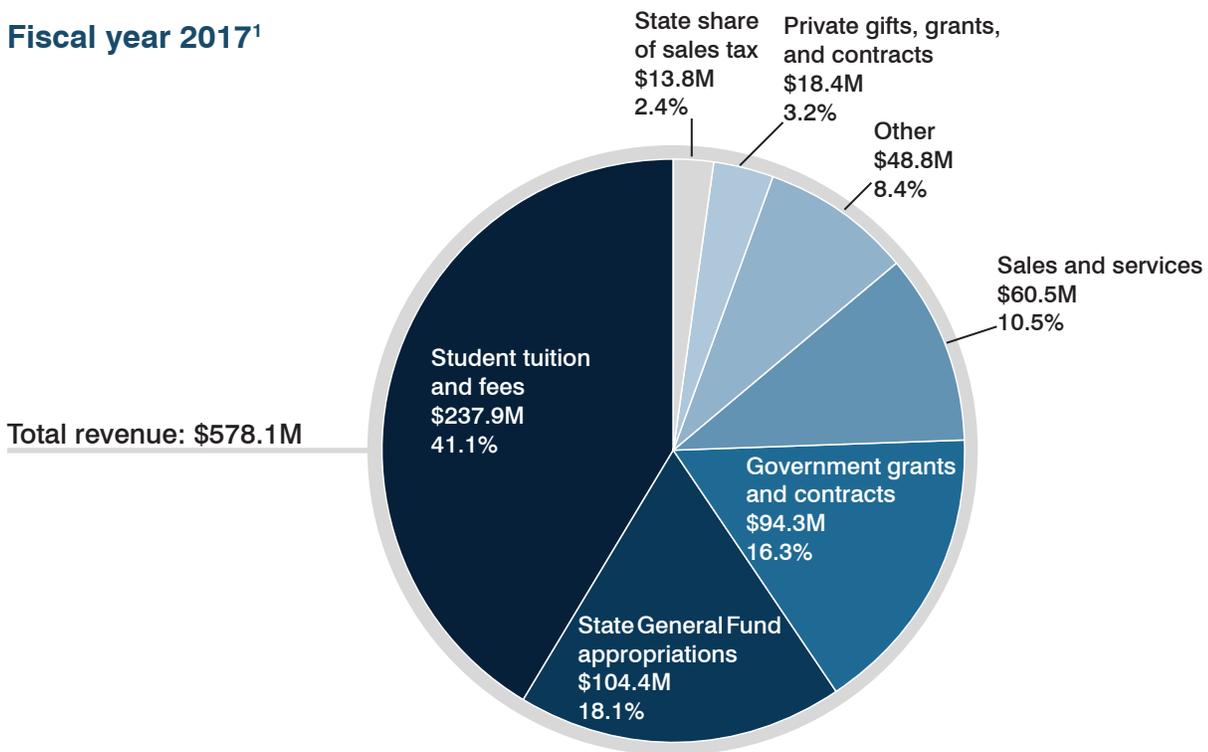
Source: Auditor General staff analysis of NAU's *Comprehensive Annual Financial Report* for the years ended June 30, 2015 through 2017.

Figure 3
NAU revenues by source
Fiscal years 2007 and 2017
(In millions)

Fiscal year 2007



Fiscal year 2017¹



¹ See footnotes from Table 10 on page c-4.

Source: Auditor General staff analysis of NAU's *Comprehensive Annual Financial Report* for the years ended June 30, 2016 and 2017.

Table 11
Schedule of revenue sources and expenses for UA
Fiscal years 2015 through 2017
(In thousands)

	2015	2016	2017
Revenue sources			
Student tuition and fees ¹	\$ 556,477	\$ 610,450	\$ 655,530
Private gifts, grants, and contracts	378,939	452,469	403,829
Government grants and contracts	394,296	381,839	400,542
State General Fund appropriations ²	284,896	253,731	269,885
Sales and services ³	255,176	259,644	262,249
State share of sales taxes ⁴	24,964	25,025	27,618
Other ⁵	147,387	57,720	90,134
Total revenue sources	2,042,135	2,040,878	2,109,787
Expenses			
Education and general:			
Instruction	417,300	460,005	459,357
Research	421,973	391,122	397,512
Academic support	264,336	344,380	314,480
Institutional support	136,347	129,501	146,185
Public service	78,231	78,604	89,221
Operation and maintenance of plant	87,079	84,418	87,925
Student services	47,187	53,033	56,022
Scholarships and fellowships	57,158	51,808	54,884
Total educational and general	1,509,611	1,592,871	1,605,586
Auxiliary enterprises ³	167,150	164,187	164,539
Depreciation	124,870	125,455	132,726
Interest on debt	46,293	49,748	51,253
Total expenses	1,847,924	1,932,261	1,954,104
Excess of revenues over expenses	\$ 194,211	\$ 108,617	\$ 155,683

¹ Reported student tuition and fee amounts were reduced for scholarship allowances. This means the tuition and fees UA charged to students for the full cost of services provided were reduced by certain student grants or scholarships awarded to some of those students and used to pay for some or all of their tuition and fees. The deducted grants or scholarships include federal financial aid awarded to students.

² State General Fund appropriations includes appropriations UA received for the Arizona Financial Aid Trust Fund and capital debt service on research infrastructure projects. The Arizona Financial Aid Trust Fund and research infrastructure revenues are not available for general education use.

³ Sales and services revenue includes charges for goods or services provided to students, faculty, staff, or the public. The revenues collected were for self-supporting activities and should therefore pay for all the costs of providing the goods or services. For example, amounts collected for food services and residence halls are accounted for as sales and services revenue. The auxiliary enterprises expenses generally include the costs for providing these goods and services.

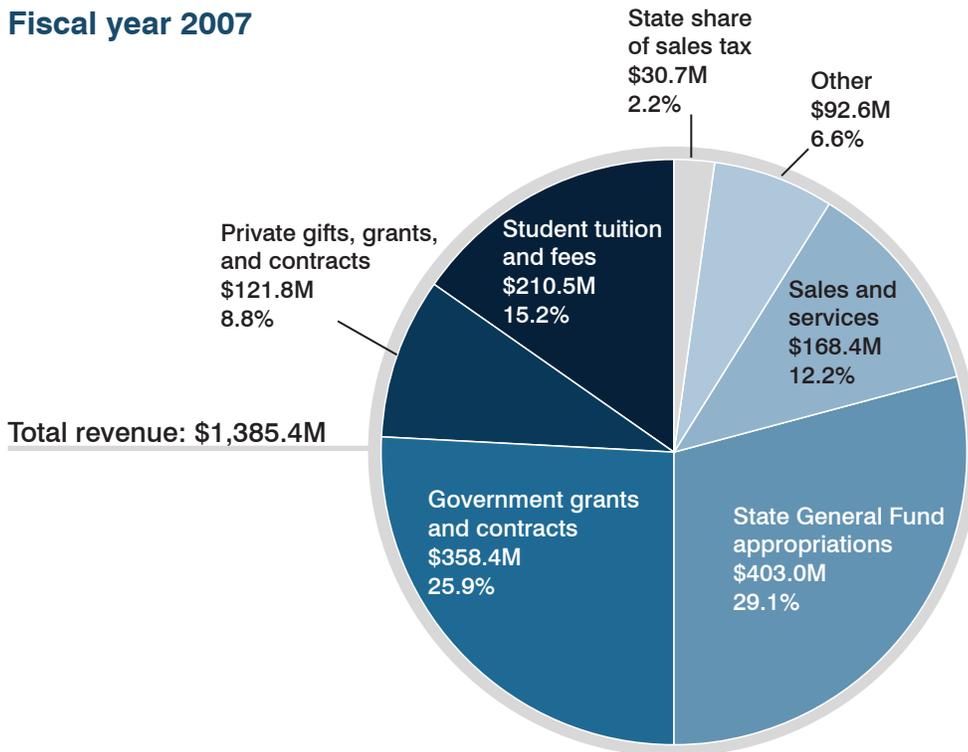
⁴ According to ABOR's website, the state share of sales tax revenue is UA's portion of Education 2000 (Proposition 301) sales tax monies that help pay for technology and research initiatives. The Board administers these monies and awards them to UA based on UA's funding requests for specific initiatives.

⁵ Other revenue includes commitments, conveyances, grants, and private gifts restricted for capital purposes and additions to permanent endowments.

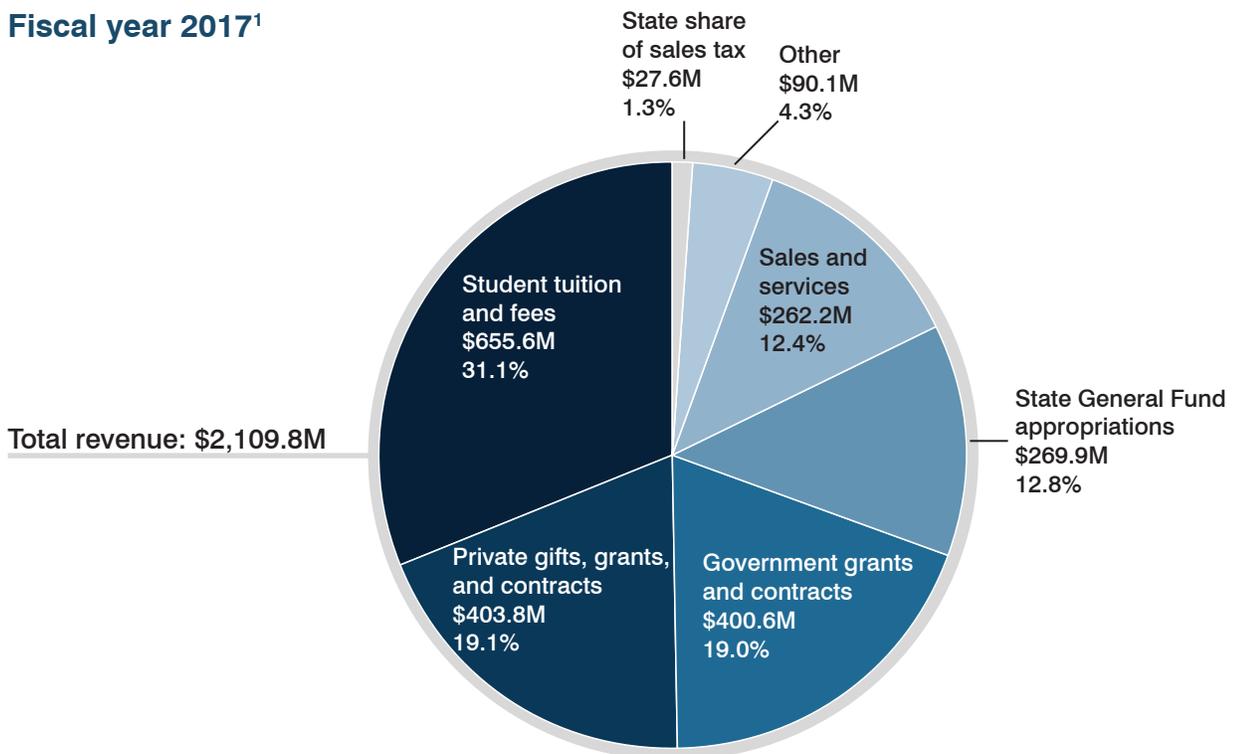
Source: Auditor General staff analysis of UA's *Comprehensive Annual Financial Report* for the years ended June 30, 2015 through 2017, and other information provided by UA.

Figure 4
UA revenues by source
Fiscal years 2007 and 2017
(In millions)

Fiscal year 2007



Fiscal year 2017¹



¹ See footnotes from Table 11 on page c-6.

Source: Auditor General staff analysis of UA's *Comprehensive Annual Financial Report* for the years ended June 30, 2016 and 2017 and other information provided by UA.



Tuition and fees at peer institutions

In 2009, the Arizona Board of Regents (ABOR) approved a list of 15 peer institutions of higher education for each of the State’s universities—Arizona State University (ASU), Northern Arizona University (NAU), and the University of Arizona (UA)—to use for comparative purposes when preparing various analyses and proposals for ABOR’s approval. Specifically, ABOR and the universities collaborated to establish lists of peer institutions based on characteristics such as student and faculty characteristics, research capability, and academic programs. ABOR’s fee-setting policies require the universities to include information about their peer institutions when proposing certain fees to ABOR for approval. For example, ABOR’s fee-setting policies require that any proposal to charge differential tuition/program fees include information on similar fees at peer institutions. Table 12 presents information about base tuition, mandatory fees, and other nonacademic fees at the State’s universities and a randomly selected sample of three peer institutions each for ASU, NAU, and UA (see Appendix E, page e-2, for information about the methods auditors used to select the sample of peer institutions).

Table 12
Incoming full-time resident undergraduate freshman base tuition, mandatory fees, and other nonacademic fees charged by the State’s universities and selected peer institutions^{1,2}
Fall 2017 and spring 2018 semesters

	Base tuition	Mandatory and other fees	Total	Number of mandatory and other fees
Arizona State University	\$9,834	\$ 958	\$10,792	8
University of Maryland, College Park ³	8,481	3,854	12,335	11
University of Washington, Seattle	9,909	1,065	10,974	5
The Ohio State University	9,717	874	10,591	5
Northern Arizona University ⁴	10,038	1,172	11,210	7
Northern Illinois University ³	9,465	4,886	14,351	4
Ohio University ³	10,536	3,360	13,896	3
Kent State University	8,393	1,769	10,162	2
University of Arizona ¹	10,860	1,508	12,368	11
University of California, Los Angeles ³	11,502	4,425	15,927	13
University of Illinois at Urbana-Champaign ³	12,036	3,832	15,868	8
University of North Carolina at Chapel Hill	7,019	1,986	9,005	25

¹ The tuition and mandatory fee rates included in this table are for incoming full-time freshmen at the indicated university’s main campus, unless the campus is otherwise specified. Depending on the peer university, “full-time” status ranges from 12 to 15 credit hours. Additionally, some fees included in this table are one-time fees charged to incoming students only.

² This does not include differential tuition, program fees, class fees, and administrative service fees and charges, such as service fees for credit card payments and late registration charges.

³ Student fees include mandatory student health insurance for which some students may request a waiver if they meet their university’s specific requirements for private health insurance.

⁴ Includes a \$150 transportation fee that is charged to students who do not purchase a parking pass.

Source: Auditor General staff analysis of tuition and fees information obtained from ASU’s, NAU’s, UA’s, and peer institutions’ websites.



Methodology

Auditors used various methods to study the issues addressed in this report. These methods included reviewing applicable state laws; fee-setting policies, procedures, forms, and other documents from the Arizona Board of Regents (ABOR) and the State's universities—Arizona State University (ASU), Northern Arizona University (NAU), and the University of Arizona (UA); ABOR meeting materials and minutes; emails from ABOR and university staff and information obtained from ABOR and the universities' websites; and interviewing ABOR and university staff.

In addition, auditors used the following specific methods to address the audit objectives:

- To determine the fees' revenues, expenses, unspent balances, and examples of expenses for a sample of student fees the universities charged in fiscal year 2016 included in appendix A, auditors reviewed ASU's, NAU's, and UA's fiscal year 2016 general ledger downloads and obtained additional information from each university. For revenue and unspent balance information auditors obtained from each university, auditors determined reasonableness of the amounts provided using enrollment information and financial information in each university's general ledger. In addition, auditors reviewed university fee proposals for the selected fees.
- To assess whether the universities set student fees in line with university processes, ABOR requirements, and fee-setting standards and guidelines, auditors reviewed ASU's, NAU's, and UA's fee proposals and other documentation for a sample of student fees the universities charged in fiscal year 2016. In addition, auditors reviewed information about public colleges and universities' tuition and fee-setting policies from the State Higher Education Executive Officers Association, as well as guidelines and best practices for government fee-setting from the Arizona State Agency Fee Commission, the Government Finance Officers Association, the Mississippi Joint Legislative Committee on Performance Evaluation and Expenditure Review, the U.S. Government Accountability Office, and the U.S. Office of Management and Budget.²⁶ Further, to obtain information about other public universities' fee-setting processes, auditors interviewed officials and reviewed documents and websites from four judgmentally selected large public universities in other states—Colorado State University, the University of California, Los Angeles, the University of Texas at Austin, and the University of Utah.
- Auditors selected the sample of student fees the universities charged in fiscal year 2016 as follows:
 - **Mandatory fees**—Auditors judgmentally selected two mandatory fees from each university, based on unaudited lists of mandatory fees obtained from each university. Auditors selected one mandatory fee that all three universities charged—the Information Technology fee—and one fee unique to each university. Specifically, auditors selected two of the eight ASU mandatory fees, two of the seven NAU mandatory fees, and two of the eight UA mandatory fees.

²⁶ Arizona State Agency Fee Commission. (2012). *Arizona State Agency Fee Commission report*. Phoenix, AZ; Government Finance Officers Association. (2014). *Best practice: Establishing government charges and fees*. Chicago, IL; Michel, R.G. (2004). *Cost analysis and activity-based costing for government*. Chicago, IL; Government Finance Officers Association; Mississippi Joint Legislative Committee on Performance Evaluation and Expenditure Review. (2002). *State agency fees: FY 2001 collections and potential new fee revenues*. Jackson, MS; Carlson, A. (2013). *Survey of state tuition, fees, and financial assistance policies for public colleges and universities*. Boulder, CO: State Higher Education Executive Officers; Armstrong, J., Carlson, A., & Laderman, S. (2017). *The state imperative: Aligning tuition policies with strategies for affordability. State tuition, fees, and financial assistance policies 2017*. Boulder, CO: State Higher Education Executive Officers; U.S. Government Accountability Office. (2008). *Federal user fees: A design guide*. Washington, DC; and U.S. Office of Management and Budget. (1993). *OMB Circular No. A 25, revised*. Washington, DC.

- **Differential tuition/program fees**—Auditors judgmentally selected two differential tuition and/or program fees, based on unaudited lists of differential tuition/program fees provided by each university. Auditors selected one differential tuition or program fee that all three universities charged—undergraduate business—and one fee unique to each university. Specifically, auditors selected 1 of the 10 ASU differential tuitions and 1 of the 82 ASU program fees, 2 of the 22 NAU program fees, and 1 of the 7 UA differential tuitions and 1 of the 62 UA program fees.
 - **Classes with fees**—Auditors randomly selected a stop and go sample of 30 class prefixes at each of the universities, based on unaudited lists of classes with fees provided by the universities. Specifically, in the lists of classes with fees the universities provided, each class was designated with a six-character prefix, such as AME 394. However, some classes shared a six-character prefix. For example, at NAU, 62 different physical education classes shared the same prefix. To ensure that each prefix had an equal probability of selection, auditors counted each prefix once when determining the total population of classes with fees for selecting the sample. This resulted in total populations of unique class prefixes as follows: 3,123 at ASU, 928 at NAU, and 1,096 at UA. Auditors randomly selected 30 class prefixes from each of these populations. Auditors tested 12 of the selected class prefixes at each university. In cases where selected class prefixes designated multiple classes with different subject matter and fee amounts, such as ART 496 and CSC 127 at UA, auditors reviewed these as separate classes with fees.²⁷ In addition, auditors selected additional class prefixes from the sample for test work based on concerns auditors identified during the audit. Consequently, auditors tested a total of 14 ASU classes with fees, 13 NAU classes with fees, and 16 UA classes with fees. In addition, auditors also reviewed one additional judgmentally selected NAU class fee based on concerns that auditors identified. The sampled fees included classes from 8 of 17 colleges at ASU, 5 of 8 colleges at NAU, and 7 of 21 colleges at UA.
 - **Other fees and charges**—During the course of the audit, auditors determined that NAU and UA had established an additional fee for which they had not received ABOR approval. Although these fees appeared to be similar to mandatory fees, NAU and UA had determined that they did not fall within ABOR's defined fee categories. Auditors included these two additional fees in their sample; however, because UA's Student Support fee was not charged until fiscal year 2017, auditors did not review the revenues and expenses for this fee. In addition, ASU charges the Resident Surcharge fee in addition to tuition and fees. Auditors reviewed this Resident Surcharge fee because NAU and UA do not charge a similar surcharge fee.
- To determine the total number of fees charged by each university in fiscal year 2016, auditors analyzed unaudited lists of mandatory fees, differential tuition, program fees, and classes with fees provided by the universities.
 - To obtain information for the Introduction and Appendix C, auditors analyzed ASU's, NAU's, and UA's fiscal years 2015 through 2017 *Comprehensive Annual Financial Report*; ASU's fiscal year 2007 *Comprehensive Annual Financial Report*; Office of the Auditor General's *Arizona University System: Full-Time Equivalent Student Enrollment Report* for fiscal years 2007 and 2017; and ASU, NAU, and UA's fiscal year 2016 general ledger downloads. Auditors also obtained tuition bills from students and examples of tuition bills from the universities. Further, auditors reviewed a 2011 Office of the Auditor General report on ABOR's Tuition-setting practices.²⁸ Finally, auditors reviewed a September 2017 lawsuit filed by the Arizona Attorney General's Office against ABOR.
 - To obtain information for Appendix D, auditors randomly selected a sample of three peer institutions each for ASU, NAU, and UA from a list of peers approved by ABOR and reviewed tuition and fees information from the websites of these peer institutions.

²⁷ One prefix auditors selected from UA was MUSI 285, an individual music studies class that charged a flat rate of \$125 per semester for private musical instruction specific to the enrolled student's musical instrument. Because the fee amount was the same and the class was for private instruction, auditors counted this as one class with a fee.

²⁸ Office of the Auditor General Report No. 11-11, *A Questions-and-Answers document on the Arizona Board of Regents—Tuition Setting for Arizona Universities*.

- Auditors' work on internal controls included reviewing and assessing the universities' processes for accounting for student fee revenue collections and spending through review of each university's fiscal year 2016 general ledger download and other information obtained from each university. Auditors also reviewed the universities' policies and procedures for ensuring compliance with ABOR policies and guidance, and where applicable, testing the universities' compliance with these policies and procedures. The results of auditors' work are reported in Finding 1.

Auditors conducted this performance audit of the universities' fee-setting processes 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 a 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 ABOR's chair, members, president, and staff and ASU's, NAU's, and UA's presidents and staff for their cooperation and assistance throughout the audit.

RESPONSES



January 18, 2018

Debra K. Davenport
Auditor General
2910 N. 44th 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*
Rick Myers, *Tucson* • Larry Penley, *Phoenix* • Lyndel Manson, *Flagstaff* • Karrin Taylor Robson, *Phoenix*

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 44th 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. 44th 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



THE UNIVERSITY OF ARIZONA
Executive Office
of the President

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January 17, 2018

Debra K. Davenport, CPA
Auditor General
State of Arizona – Office of the Auditor General
2910 N 44th Street – Suite #410
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. |

