External Audit Department

Class Fees

May 20, 2018
Report Number FY 18-04

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This report is intended for the information and use of the Arizona Board of Regents, NAU administration, the Arizona Office of the Auditor General, and federal awarding agencies and sub-recipients.
Our audit of NAU’s class fees is in the NAU Annual Audit Plan for fiscal year 2018, as approved by the Arizona Board of Regents (ABOR). This audit supports Northern Arizona University’s goal of having innovative, effective, and accountable practices and NAU’s core value of providing excellence in education. The Arizona Auditor General issued its performance audit results addressing Arizona Universities’ Fee-Setting Process in January 2018 and the most recent NAU audit of University-wide class fees was issued in November 2012.

**Background:** The procedures to set and approve rates for program and class fees are governed by ABOR policy 4-104. Class fees are charged to students in the same manner as base tuition. Class fees are assessed for enrollment in certain classes to allow cost recovery for expenses that are necessary for successful completion of class objectives. All class fees and related changes must be approved by the Office of the Provost (delegated to the Vice Provost for Academic Affairs) using an electronic Justification Form for Instructional Fees. The President of the University must approve all new and any increased class fees. Class fees are generally $100 or less but range from $2 to $900 per course. Any proposed class fee over $100 must be submitted to the Arizona Board of Regents for approval. The Registrar’s Office maintains a master list of all class fees. Catalog numbers are generally used to reflect the various rates. Catalog numbers are also used by the Registrar’s Office to properly attribute class fee revenues.

Class fee revenues and expenditures are posted to departmental designated local fund accounts (DEPTID) in the PeopleSoft financial system. Revenues from class fees can be identified from other revenue sources by account class. For fiscal year 2017, NAU reported $6,048,293 from class fee revenue related to 106 DEPTID/local accounts. And, for the first six months of fiscal year 2018, NAU reported $3,060,580 from class fee revenue related to 88 DEPTID/local accounts.

Since the last audit in 2012, the Office of the Provost has upgraded the Justification Form process from a paper-based to an electronic system, with the forms electronically routed for review and approval, and ultimately stored in the OnBase document management system for easy access. The forms reflect the current class fee rates and the estimated annual costs and revenue based on anticipated enrollment. Drop down boxes and text boxes document the allowable uses of the funds. Approvals and the rationale for intentional accumulation of funds are documented. The Justification Forms provide a review date that informs Colleges when class fees are subject to a sunset review.

**Audit Objective:** The primary audit objective was to determine whether class fees are in compliance with ABOR policies, including that fees:

- are listed and properly maintained on a University master list;
- have an approved Justification Form on file;
- have been properly approved by ABOR if over $100;
- are published in the University’s course catalog;
- are separately tracked and accounted;
- are accurately and uniformly assessed to students;
- are not accumulated in excessive or unjustified fund balances; and,
- are expended in compliance with ABOR policy and their respective Justification Form.
Scope: This audit focused on University courses that required payment of class fees during fiscal year 2017.

Methodology: Our audit objectives were accomplished by performing the following procedures:

- obtaining a master list of all University classes that require class fees and testing the accuracy and completeness of the master list by comparing it to the accounts identified using the University's financial reporting system;
- obtaining and verifying that a judgmental sample of 46 class fees were approved using a “Justification Form” that provides the class fee amount to be charged, the account where transactions are to be posted, the effective date, the anticipated amount of revenues, the purpose of the revenues, and the authorization for any accumulated balances;
- confirming that Justification Forms were presented to ABOR for approval for class fees greater than $100;
- determining that students were assessed and paid the appropriate amount of fee;
- reviewing the University’s processes to ensure fund expenditures are appropriate relative to the students who paid and the approved purpose;
- judgmentally testing the usage of class fees for compliance with NAU Guidelines and their respective Justification Forms; and,
- assessing the reasonableness of any class fee account balances.

Conclusion: The electronic Justification Form process has enhanced administration of NAU’s class fee process. The Justification Forms supplement and reinforce allowable fund uses as outlined in NAU's Guidelines and ABOR policy, and provide rationale for rate setting. Expansion of the electronic justification form process to include capturing the method of fee calculation and underlying costs could help to address the costs tracking (OAG 1.10.d) and account review (OAG 1.10.e) recommendations made by the Arizona Auditor General in their Fee-Setting Processes Performance Audit Report (Report 18-101) dated January 19, 2018.

Our audit results support the overall OAG recommendations in that we believe the University should provide greater oversight of the accounting for class fees to provide reasonable assurance of compliance with all current and future ABOR related policies and that certain clarifications of ABOR policies and definitions will assist in maintaining proper oversight of class fees. These observations are noted in the remainder of the report and are linked to specific OAG report findings where applicable.

Management is supportive of our recommendations and will begin working to implement their identified action items as soon as practical to do so.

The control standards we considered during this audit and the status of the related control environment are provided in the following table.
### General Control Standard

<table>
<thead>
<tr>
<th>Control Environment / Assessment</th>
<th>Rec No.</th>
<th>Pg No.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reliability and Integrity of Financial and Operational Information:</td>
<td></td>
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<tr>
<td>• Class fee revenues and expenses are accurately assessed, recorded, and accounted for in NAU’s financial system.</td>
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<tr>
<td>• Class fee revenues / expenses are monitored / controlled by financial account.</td>
<td>1</td>
<td>4</td>
</tr>
<tr>
<td>• Account fund balances are monitored and are reasonable.</td>
<td>1</td>
<td>4</td>
</tr>
<tr>
<td>Effectiveness and Efficiency of Operations:</td>
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<td></td>
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<tr>
<td>• Class fee accounts in the PeopleSoft financial system agree with the Registrar’s master list of class fees.</td>
<td>1</td>
<td>4</td>
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<tr>
<td>• Justification Forms are complete / adequately retained for future reference.</td>
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<td>8</td>
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<td>• A process exists to archive all proposed class fee requests.</td>
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<tr>
<td>• Students are assessed the proper amount for class fees.</td>
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<tr>
<td>• Fund balances are reasonable (no excessive surpluses / deficits).</td>
<td>1</td>
<td>4</td>
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<tr>
<td>• NAU provides sufficient guidance to ensure compliance with ABOR policy.</td>
<td>3</td>
<td>7</td>
</tr>
<tr>
<td>Safeguarding of Assets</td>
<td>Not Applicable</td>
<td></td>
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<tr>
<td>Compliance with Laws and Regulations:</td>
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<tr>
<td>• All class fees exceeding $100 were properly submitted to ABOR.</td>
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<tr>
<td>• All class fees are published in NAU’s catalog of classes.</td>
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<tr>
<td>• Class fee revenues are expensed in accordance with ABOR policies and their respective Justification Forms.</td>
<td>2</td>
<td>6</td>
</tr>
<tr>
<td>• Classes with fees are periodically assessed to determine impact on students, usage of funds, and adequacy of fund balances.</td>
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</tbody>
</table>

### Legend:

- **Reasonably Strong Controls In Place**
- **Opportunity for Improvement**
- **Significant Opportunity for Improvement**

We appreciate the assistance of the staff of the Office of the Vice Provost of Academic Affairs, Comptroller’s Office, University Budget Office, and the Registrar’s Office during this review.

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1. **A comprehensive process should be developed to efficiently account for class fees expenditures and balances.**

**Condition:** Presently, use of PeopleSoft Financials is not sufficient to ensure compliance with class fee requirements as formally documented using online Justification Forms, as follows:

**A. Comparison of PeopleSoft Financials to the Master List of Class Fees:** Class fee accounts as identified in PeopleSoft Financials (DEPTID accounts) do not accurately reflect all active class fees on NAU’s master list of class fees. Fourteen class fee accounts in PeopleSoft were not reflected in the master list of active class fees during FY 2017.

**B. Ensuring compliance using PeopleSoft:** Justification Forms document authorized class fee rates, the terms and conditions for usage of funds, and allowances for any carry-over balances. PeopleSoft Financials records class fee revenues, expenses, and account balances by Department (DEPTID). The PeopleSoft Financial system currently cannot be used to ensure transactions and account balances comply with the terms outlined on the Justification Forms for the following reasons:

i. PeopleSoft DEPTID accounts are not set-up to reflect individual Justification Forms/class fees and the manner in which the Justification Forms were approved, limiting the ability to separately account for each class fee. Specifically,
   - DEPTID accounts often represent multiple Justification Forms with varying terms of class fee uses and allowances to accumulate fund balances, and
   - DEPTID account balances may include revenues from sources other than class fees to cover deficits or unbudgeted costs. (See also OAG 1.10.a)

ii. A more consistent methodology has not been developed to facilitate detailed reviews of revenues, expenses, and account balances. Specifically,
   - SUB DEPTIDs created by some departments to facilitate monitoring of revenues and expenses do not reflect beginning and ending balances. These accounts roll-up to DEPTIDs accounts but require business managers to allocate common expenses, such as computer equipment and lab coordinators salary to SUB DEPTID accounts within DEPTID accounts. These allocations are inefficient to determine and are thereby likely to be arbitrary.
   - Some departments (for example, the Biological Sciences Department) track revenues, expenses, and account balances manually to ensure compliance with approved class fee requirements as documented in Justification Forms. This process has not been adopted by most units since this manual process is time-consuming and inefficient. (See also OAG 1.10.e)

**C. Tolerance for class fee account balances.** Per NAU Guidelines, “No course fee account should carry forward a balance.” Forty-four of the active 92 DEPTID class fee accounts do not have a course Justification Form that outlines that fund balances may accrue for a future specified use. NAU Guidelines for class fees do not provide a tolerance level for any excess fund balances. The ratio of revenue to accumulated balances indicates excess fund balances in a few cases. At the end of FY 2017, there were eight class fees with revenue less than, or equal to, 1% of their accumulated balance.
Of the 92 active DEPTID accounts, seven reported deficit balances as of June 30th and six did not generate sufficient class fee revenue to cover expenses during FY 2017.

Criteria: To ensure only properly approved class fees are actually and accurately charged:
- each class fee account in PeopleSoft should agree with the master list of class fees;
- an efficient and consistent process should be developed that enables class fee uses and account balances to be reviewed for sufficiency to cover applicable expenses and compliance with NAU/ABOR guidelines and approved class fee requirements as documented on the Justification Forms.

Cause: Explanations for the observations noted above include:

A. Class fee DEPTID accounts are identified in PeopleSoft when class fee revenues and expenses are posted to a Provost Cabinet DEPTID/Local Fund account. The master list of class fees reflects that five DEPTID class fee accounts represented inactive class fees during FY 2017. Seven other accounts were made inactive beginning with the fall 2016 semester, and another two DEPTID accounts were not reflected on the master list of class fees either as active or inactive.

NAU’s financial records have not been periodically examined and compared to the master list of class fees for accuracy. PeopleSoft does not segregate class fee accounts from other DEPTID/local accounts, complicating comparison of records.

B. The master class list is voluminous and fluid. As of May 2017, there were approximately 1,625 line items on the 2017 master class list with corresponding approved Justification Forms. Annually, the Office of the Provost allows departments to request modifications to previously submitted Justification Forms. To track revenues, expenses, and account balances for each of these line items would be an inefficient use of University and departmental resources.

C. Business managers are not always made aware of the terms approved per the Justification Forms and the need to monitor class fee fund balances. DEPTID accounts may also include revenues from sources other than class fees resulting in overstating revenues and account balances.

Effects:
- At the end of the spring 2017 semester, there was a net liability of class fee funds totaling $2.7 million ($2,698,740). Transactions posted to inactive accounts may not be accounted for or monitored for compliance with the approved class fee Justification Forms and class fee guidelines. (See also OAG 1.10.a)
- Independently reviewing fund uses for compliance with Justification Forms is inefficient.
- Tracking allowable account balances is not always possible resulting in potential unallowable fund balances.

Recommendation: To adequately account for class fee accounts:

A. The Comptroller’s Office, the Budget Office, and the Provost’s Office should develop a process to periodically compare the master list of class fees to the class fee accounts in PeopleSoft Financials. To help with a comparison, class fee accounts should be made more readily identifiable in PeopleSoft Financials.
B. The Comptroller’s Office and the Budget Office should develop a consistent and efficient financial reporting process to facilitate monitoring compliance with the terms authorized on class fee Justification Forms. Developing an automated exception reporting process for class fee accounts could improve efficiency in this regard.

C. A tolerance level should be established for accounts that are not authorized to accumulate fund balances. Business managers and administrative support staff should be made aware of the terms on the Justification Forms and the need to monitor account balances from year to year. Periodically, the Comptroller’s Office and the Budget Office should independently review departmental account balances as posted in PeopleSoft for assurance that any accumulated balances reasonably comply with NAU and ABOR Guidelines. Automated exception reporting could facilitate a more efficient review.

D. The Comptroller’s Office, the Budget Office, the Provost’s Office, and academic units should work jointly to develop a process that ensures inactive and discontinued class fee accounts are closed in PeopleSoft Financials and any balances transferred to appropriate DEPTID/local accounts.

Response: The Comptroller’s Office will coordinate a work group including representatives from the Comptroller’s Office, Budget Office, and Academic Affairs in summer, 2018 to develop a methodology to adequately monitor class fee accounts as outlined. The work group will identify timelines and needs for implementation by the academic year 2019-2020 budgeting process with the anticipated result being an efficient and effective annual process of review that will ensure consistency with ABOR policy.

2. The Comptroller’s Office and the Office of the Provost should develop a process to periodically review the usage of class fee funds for reasonableness. (See also OAG 1.10.a and 1.10.e)

Condition: An overall review of usages of class fees for FY2017 reflects that for the most part NAU’s class fee funds reasonably reflect ABOR’s and NAU’s Guidelines with the following exceptions:

- advertising costs relating to promoting health classes and programs totaled $821;
- posters printed for departmental purposes for $100;
- program fees inadvertently charged as class fees:
  - salaries for benefit eligible employees for $4,450,
  - renters’ liability insurance for $15,
  - managed network services for $7,983;
- employee conference costs for $415;
- employee background checks totaled $422; and,
- posting errors to class fees instead of applicable expense accounts totaled $1,136.

Criteria: ABOR policy 4-104 provides that “class fees may be imposed only for the items included in the Board guidelines on class fees”. There should be a process to independently review usage of class fee funds, at least annually.
Cause: A process has not been developed to periodically and independently review the usage of class fees for reasonableness.

Effect: Fee usage may not follow applicable ABOR or NAU policy or guidelines.

Recommendation: The Office of the Provost should work with the Comptroller's Office to develop a process to periodically review usage of class fee funds for reasonableness and compliance to NAU Guidelines. Any unallowable charges should be communicated to the originating departments to properly resolve.

Response: The Office of the Provost will work with the Budget Office and Comptroller's Office under the umbrella of the work group and timelines identified in Recommendation 1 to develop a process of periodic review of usage of class fee funds for reasonableness and compliance with NAU Guidelines.

3. The Comptroller's Office should work with the Office of the Provost and the Budget Office to communicate responsibilities and expectations for compliance with ABOR's and NAU's Class Fee Guidelines. (See also OAG 1.10.a and 1.10.e)

Condition: NAU Guidelines provide a general description of allowable and prohibited uses of class fee funds. However, the guidelines do not:

- address the appropriateness of any permitted account balances or the reasonable balances that may retained,
- instruct departments on how fund uses should be monitored,
- provide additional guidance on questionable uses of funds, such as work orders, and
- emphasize the need to close inactive accounts in PeopleSoft and transfer excess funds to an appropriate DEPTID/local account.

Criteria: NAU departments, including business managers and administrative support staff, should be made aware of how to help ensure compliance with ABOR and NAU Guidelines.

Cause: NAU Guidelines and the class fee Justification Forms provide direction to establish class fees but business managers and administrative support staff who are responsible to monitor accounts are not always made aware of the terms outlined in the Justification Forms.

The University has not developed an efficient process for business managers and administrative support staff to track account balances and review expenses for reasonable compliance to Justification Forms.

Effect: Possible lapses of compliance with ABOR and NAU Class Fee Guidelines.

Recommendation: The Comptroller's Office should work with the Office of the Provost and Budget Office to communicate the responsibilities and expectations of monitoring class fees to departmental business managers, administrative support staff and, if feasible, applicable faculty. Departmental business managers and administrative support staff should be given instructions...
on how to access approved Justification Forms in OnBase. The expectations to track account balances and close inactive accounts in PeopleSoft should be better communicated.

**Response:** The ABOR Guidelines for Class Fees describe the uses of class fees and the NAU Guidelines reference the ABOR Guidelines.

The work group identified in Recommendation 1 will better define departmental responsibilities and expectations related to course fee management. Upon determination of these responsibilities and expectations, the Office of the Provost:
- will publish NAU Course Fee Accounting Guidelines and/or provide links to relevant information published by the Comptroller’s Office;
- will advise academic units on best access for course fee reports for use by unit business managers.

4. **All Justification Forms for class fees over $100 should document ABOR approval information. (See also OAG 1.5)**

**Condition:** Prior to 2011 there was no process that required ABOR approval for class fees over $100. NAU management had approved 16 class fees (from a population of over 1,000 course IDs) before 2011 that remain active and unchanged. There is no indication on the electronic Justification Forms that these class fees are exempt from ABOR approval nor the dates when approved.

**Criteria:** All Justification Forms for fees over $100 should provide dates when they were approved by ABOR. If exempt from ABOR approval, the Justification Forms should note the reason for the exemption and include the dates when approved by NAU management.

**Cause:** Class fees over $100 did not require ABOR approval before 2011.

**Effect:** There is no evidence that class fees over $100 that were initiated before 2011 were properly approved within the University.

**Recommendation:** The Office of the Provost should ensure that all Justification Forms document required approvals and dates approved.

**Response:** As of this report date, the Office of the Provost already updated all OnBase Justification forms for fees over $100 to reflect either the date of ABOR approval or the existence of the fee prior to requirement of ABOR approval.