

**Arizona State University  
Office of University Audits  
Class Fee Audit  
May 3, 2018**

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Audit Report  
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**Summary:** The Class Fee audit was included in the Arizona State University (ASU) FY 2018 audit plan approved by the Arizona Board of Regents (ABOR) Audit Committee and ASU senior leadership. The audit focused on assessing if class fee revenue was used for appropriate purposes per the defined ABOR guidelines and if colleges and schools followed the defined internal processes governing class fees. This is the first audit of class fees by University Audit. This audit is in support of ASU's mission of effective management of financial resources and ASU's commitment to providing the highest quality education possible at the lowest price possible.

**Background:** Class fees are fees charged to students who enroll in specific classes that have a need for or use specific equipment, supplies, technology, personnel or field trips. ABOR has approved the use of class fees through policy 4-104 and has defined guidelines to govern the use of revenue derived from class fees. Class fee revenue for FY 2017 was \$23.6 Million.

The Provost Office has defined standard processes governing class fees. The process includes documenting the intended purpose, amount, financial account, expense categories the revenue will be utilized for and the justification for the class fee. Information is collected and stored in a central tool (Curriculum ChangeMaker), which also facilitates the workflow for required approvals. As part of the fee request, a detailed budget is required which breaks down the various components of the fee based on approved expense categories. The template captures the overall expenses for the class and includes a calculation based on the projected number of students enrolled to determine the specific class fee.

Generally, class fee revenue and related expenses are recorded to a unique account; however, class fees may be comingled in instances where the fee supports a common resource such as a computer lab or to purchase supplies where it is more economical to purchase in large quantities rather than for each specific class individually. When class fees are comingled, written justification is required to document the need for the shared account, along with the specific class fees that will be recorded to the account. Expenses are not tracked at the class level when a comingled account is utilized since it is intended to utilize the revenue for the shared resources.

Colleges and schools are responsible for ensuring the defined process is followed and for monitoring class fees to ensure revenue is utilized for appropriate purposes.

**Audit Objectives:** The objective of this engagement was to assess compliance with the defined process governing class fees:

- Ensure approved class fee forms are in place for class fees being assessed

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- Ensure the class fee being charged is supportable and appropriate
- Ensure multi-class fee forms exist and provide appropriate justification for when class fees are comingled
- Ensure class fee revenue is utilized for approved purposes
- Ensure accumulated balances are supportable and align with the approved use of the class fee revenue
- Identify opportunities for improvement

**Scope:** The scope of the audit focused on class fee revenue and related expenditures for FY 2017. All colleges and schools were considered in scope for this audit.

Icourse and ASU Online class fees were not considered in scope for this review due to these fees following a different process. Combined revenue and expenses for these two class fees were \$11.6 million and \$10.7 million respectively for FY 2017.

**Methodology:** Our audit consisted of tests and procedures necessary to provide a reasonable basis for expressing our opinion. Specifically, audit work consisted of interviews with representatives of the Provost Office and colleges and schools, review of related documentation, and substantive tests including the following areas:

- Ensuring completed class fee forms and supporting budgets exist for a sample of 587 class fees
- Ensuring the multi-class fee form was complete and provided appropriate justification to comingled class fee revenue for a sample of 46 accounts that had comingled revenue
- Validating class fee revenue was utilized for authorized purposes by assessing expenditure detail for a sample of 115 accounts. These accounts represented 59% of the class fee revenue and 58% of personnel and other expenses recorded to class fee accounts for FY 2017 excluding icourse/ASU Online accounts. Specific validation procedures include the following:
  - Validating the title/role for each individual with personnel expenses
  - Selecting multiple transactions from each account and validating source documentation to ensure the expense item was appropriate per the approved class fee form and supporting budget
- Assessing the FY 2017 ending balance for 178 accounts to determine if the ending balance was supported per the approved use of the class fee revenue

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**Conclusion:** Overall, class fee revenue use is generally consistent with the defined ABOR guidelines. University Audit tested \$5.3 million dollars in personnel expense and other expenditures from 115 accounts representing 587 class fees and found that 95% of the expenditures were compliant with the defined ABOR guidelines. Exceptions totaling \$242,080 were identified, of which \$222,411 was related to four instances of general expense allocations and one instance related to enhanced security. The remaining \$19,669 represented isolated exceptions. There was an additional \$467,368 in exceptions identified that were compliant with ABOR guidelines; however, the expenditures were not in alignment with the originally approved use of the class fee revenue.

The Provost Office has implemented processes that require formal documentation, including class fee justification and budget support, as well as defined approval processes; however, compliance with these processes needs improvement. The existing process has evolved over the past several years, with any resulting updates generally applied on a prospective basis. Overall, approved class forms exist for class fees being charged; however, these are often dated. Specifically, 467 (80%) of the class fees reviewed were implemented in 2012 or before. Of these, more than half did not have a supporting budget to support the fee being charged. In addition, it was noted that 24 of the 46 accounts (52%) that required a multi-class fee form did not have a completed form or did not contain adequate detail to justify comingling the funds including analysis to support the fees being charged.

In addition, review processes have not been implemented to assess the overall class fee activity to ensure all expenditures have been recorded to the proper account and that accumulated balances are valid based on the approved use of the class fee. As a result, colleges and schools have not consistently monitored class fee accounts ensuring accumulated balances and specific fee amounts are appropriate. Specifically, testing identified 79 of 178 class fee accounts (44%) with accumulated balances at the end of FY 2017 that were not supportable based on the approved use of the class fee(s). Accumulated balances for these accounts totaled \$2.4 million; in many cases, the balances have accumulated over multiple years.

At the time of this audit, the Provost Office was already developing and implementing review processes for the colleges and schools to follow to ensure class fee activity is reconciled and monitored on an annual basis.

The control standards University Audit considered during this audit and the status of the related control environment are provided in the following table.

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<b>General Control Standard</b> (The bulleted items are internal control objectives that apply to the general control standards, and will differ for each audit.)	<b>Control Environment</b>	<b>Finding No.</b>	<b>Page No.</b>
<b>Reliability and Integrity of Financial and Operational Information</b>			
<ul style="list-style-type: none"> <li>Class fee revenue is used for approved purposes, which are consistent with defined ABOR guidelines.</li> </ul>	Reasonable to Strong Controls in Place	N/A	N/A
<ul style="list-style-type: none"> <li>Approved class fee forms are current and include appropriate budget details to support the fee amount being charged.</li> </ul>	Opportunity for Improvement	1	5
<ul style="list-style-type: none"> <li>Multiclass fee forms are complete and accurate including documenting the specific class fees that are being comingled and justification to support the revenue being combined.</li> </ul>	Opportunity for Improvement	2	6
<ul style="list-style-type: none"> <li>Monitoring and review processes are in place to ensure existing processes are followed and that class fee amounts are appropriate.</li> </ul>	Opportunity for Improvement	3	8
<b>Effectiveness and Efficiency of Operations</b>	Not Applicable	N/A	N/A
<b>Safeguarding of Assets</b>	Not Applicable	N/A	N/A
<b>Compliance with Laws and Regulations</b>			
<ul style="list-style-type: none"> <li>Defined processes are in place to ensure compliance with ABOR guidelines governing the class fees.</li> </ul>	Reasonable to Strong Controls in Place	N/A	N/A

We appreciate the assistance of the Provost Office and colleges and schools representatives during the audit.

*Lisa Grace*

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Lisa Grace, CPA, CIA, CISA  
 Executive Director

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**Audit Results, Recommendations, and Responses**

**1. Class fee forms are often dated and do not have required budget detail to support the fee being charged.**

**Condition:** Overall, approved class forms exist for class fees being charged; however, these are often dated. Specifically, 467 (80%) of the class fees reviewed were established in 2012 or before. Of these, more than half did not have a budget to support the fee being charged. Exceptions were also identified in more recent class fee forms; however, these were isolated.

**Criteria:** For each class fee, a formal class fee form describing the various uses of the revenue is required. In addition to the form, a budget template is required to provide detailed information on the specific uses of the class fee revenue, anticipated costs and anticipated enrollment to determine the specific fee that will be charged.

**Cause:** As updates and enhancements have been implemented to the processes governing class fees, they have generally been implemented on a prospective basis. In addition, the current process does not include periodic reviews of existing class fees to ensure information is still accurate and represent the current use of the class fee revenue.

In many instances, the class fees were implemented years before the existing ChangeMaker tool was introduced. In these instances, colleges and schools were reliant on stored paper forms from many years ago, which often could not be located.

**Effect:** Not all existing fees have adequate support to justify the amount of the fee being charged. In addition, class fee forms are not being updated when the needs of the class have changed, resulting in revenue being utilized outside of approved categories.

**Recommendation:** The colleges and schools should perform a comprehensive review of class fees and update class fee forms and supporting budgets to reflect the current needs. In addition, periodic review processes should be implemented to ensure ongoing reviews occur so that class fee forms are updated timely as needs change.

As part of the review activity, the colleges and schools should also confirm all class fee documentation is in ChangeMaker to eliminate the need to maintain manual documentation.

**Management Response:** The Office of the University Provost is implementing new processes to more closely monitor class fee revenue uses and accounts. In the past, this

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responsibility was decentralized to the departments/schools and colleges for review and oversight. Beginning with FY 2018 year-end close, we will implement a university level review process. Departments and schools will be required to review and certify annually that each fee/account:

- Has a current fee request form and budget submitted through Changemaker. If either does not exist in Changemaker, a fee request and/or budget form must be submitted.
- Is being used as approved.
- If a balance exists that is more than 10% of annual revenue, has a plan for its use consistent with approved uses and/or will issue refunds to students. If refunds will be issued to students, the fee amount must be re-justified based on an updated request or it must be reduced in line with actual expenses.

As a part of this review, the Provost Office will ensure that all accounts with balances are addressed and the plans submitted are approved.

**2. Multi-class fee forms are often missing or do not contain adequate justification to support why revenue is being comingled including providing appropriate analysis to support when fee amounts vary.**

**Condition:** 24 of the 46 multi-class fee accounts (52%) reviewed did not have the required form, the form was incomplete or did not contain appropriate justification to comingle the funds.

**Criteria:** Multi-class fee accounts are utilized to support shared resources such as a computer lab. In these instances, expenses are not tracked at a class level. As such, the multi-class fee form is intended to capture all of the classes being mapped to the account, justification for the comingled treatment of the revenue, as well as detailed analysis to support why fee amounts may vary based on the specific use of the shared resource.

**Cause:** As updates and enhancements have been implemented to the processes governing class fees, they have been implemented on a prospective basis. In addition, the current process does not require periodic reviews of existing class fees to ensure information is still accurate and represents the current use of the class fee revenue.

In many instances, the class fees were implemented years before the existing Changemaker tool was introduced. In these instances, colleges and schools were reliant on stored paper forms from many years ago, which often could not be located.

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**Effect:** Existing multi-class fee accounts do not have adequate documentation to support class fee revenue being comingled including analysis to support varied fee amounts. As such, colleges and schools are not able to demonstrate class fee amounts are appropriate when fees vary. There were also multiple instances noted where class fees should not be comingled.

**Recommendation:** The colleges and schools should perform a comprehensive review of class fees and confirm an approved multi-class fee form including justification and supporting analysis exists for each multi-class fee account. In addition, periodic review processes should be implemented to ensure ongoing reviews occur to validate the ongoing need to comingle funds.

As part of the review activity, the colleges and schools should also confirm all multi-class fee forms are in ChangeMaker to eliminate the need to maintain manual documentation.

**Management Response:** As a part of the new, annual review and certification process, departments and schools with multi-class fee accounts:

- Will certify that the fee revenue and account are being used consistent with the approved justification for a multi-class fee account.
- If the fee amounts or uses have changed since the original approval, a new multi-class fee request must be submitted.
- If the multi-class fee account request does not exist in Changemaker, the department will submit the multi-class fee justification and form.
- If different fee amounts are charged for different classes sharing the same account, the multi-class fee account form should clearly justify why different amounts are charged. If this is not already documented on the approved multi-class fee request form, the department will need to resubmit a new/updated request through Changemaker that does so.

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**3. Monitoring and review processes are not in place to ensure that class fee amounts and accumulated balances are appropriate.**

**Condition:** 79 of 178 class fee accounts (44%) tested had balances that were not supportable based on the approved use of the class fee(s). Accumulated balances for these accounts totaled \$2.4 million.

**Criteria:** Class fee revenue is approved for specific uses only. ABOR has defined allowable categories overall and the university has implemented additional procedures that require further justification of the revenue use. As part of the existing process, it is allowable to accumulate balances for larger items such as technology refreshes or specialized equipment as well as to purchase materials and supplies in bulk for efficiency and cost savings. Accumulated balances should be consistent with the approved use of the class fee and processes in place to determine if the balance is supportable.

**Cause:** There are multiple components that affect class fee revenue and expenses including changes in estimated costs, changes in expected enrollment, timing of hiring personnel or incurring expense as well as processes to ensure transactions are recorded to the appropriate class fee account when incurred. As a result, timely review of class fee activity is necessary to identify when changes have occurred that may require a change in the class fee being charged. Currently, periodic review processes are not in place to assess the annual class fee activity to ensure accumulated balances are supportable and the class fee amount is still appropriate.

**Effect:** Class fee account balances have accumulated that are not supportable based on the approved use(s) of the revenue. In many instances, balances have accumulated over multiple years.

**Recommendation:** The Provost Office is already developing and implementing review procedures that the colleges and schools must follow and submit to the Provost Office on a defined periodic basis. As part of this, they are also developing secondary review processes and formalized governance at an enterprise level. In addition, guidance should be provided to the colleges and schools to address the following areas:

- Circumstances that require a revised class fee form and supporting budget template
- Circumstances where accumulated funds can be utilized for different purposes than the original class fee form indicated in addition to the required justification and support

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- Circumstances that require a class fee refund.

**Management Response:** Due to the implementation of the new, annual review and certification process by departments and schools for all class fees and accounts, we will address the initial accumulation of any balances to date in this first cycle. We will review each plan submitted to ensure the planned uses are consistent with the intent of the approved uses. If the plan does not indicate a use of any balance more than 10% of annual revenue within a reasonable period of time, refunds to students will need to be issued and a request to adjust the fee amount must be submitted. Henceforth, this annual review and certification process will address accumulated balances consistently, allowing for necessary adjustment of fee amounts on an annual basis.

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**Distribution:**

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