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An Audit Report on

# **Student Fees at Selected Higher Education Institutions**

September 2008

Report No. 09-002



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### Overall Conclusion

The five higher education institutions audited spent and transferred funds collected from 30 of 40 student fees tested in accordance with applicable laws and policies.<sup>1</sup> However, improvements should be made to ensure that all student fee revenues are spent and transferred appropriately. The higher education institutions audited included:

- Texas Tech University.
- Sam Houston State University.
- The University of Houston.
- The University of Texas at San Antonio.
- The University of North Texas.

Higher education institutions should improve monitoring of student fee account balances. At the end of fiscal year 2007, there were accumulated balances in incidental student fee accounts at all higher education institutions audited.

Higher education institutions could interpret student fee requirements more consistently if the Texas Education Code and internal policies were more specific. A lack of specificity in the Texas Education Code and internal policies at higher education institutions prevented auditors from determining whether certain student fees were collected, transferred, and spent in accordance with applicable laws and policies. The lack of specificity also led to inconsistent classification of student fee revenue among the five institutions audited.

#### Background Information

The Texas Education Code grants higher education institutions the authority to charge student fees to cover the costs of privileges or services provided to students.

During fiscal year 2007, Texas higher education institutions collected \$812,462,767 in fees from students (an average of \$1,948 per full-time student during the fiscal year).

From fiscal year 2004 to fiscal year 2007:

- Total student fees collected by all Texas higher education institutions increased by 14.1 percent.
- At some higher education institutions, total fees collected increased by as much as 139 percent.

See Appendix 2 for a list of specific fees that auditors tested at each higher education institution.

See Appendix 4 for excerpts from Texas Education Code, Chapter 54.

<sup>1</sup> Laboratory fees tested at each higher education institution were treated as a single fee for testing purposes.

Higher education institutions should account for student fee revenue in a manner that allows them to ensure they collect and spend funds in accordance with applicable laws and policies. Higher education institutions receive funds from sources other than student fee revenue and they often deposit these funds in the same accounts as student fee revenue. This commingling of funds prevented auditors from determining whether higher education institutions spent student fee revenue in accordance with applicable laws and policies.

### ***Key Points***

Texas Tech University should account for student fee revenue in a manner that ensures compliance with applicable laws and policies.

Texas Tech University (TTU) does not consistently account for student fees in separate accounts, which prevented auditors from determining whether TTU spent laboratory fee revenue, TECHniques Center fee revenue<sup>2</sup>, and Student Union fee revenue in accordance with applicable laws and policies. However, TTU collected, spent, and transferred three incidental fees and one designated fee tested in accordance with applicable laws and policies.

Sam Houston State University should manage student fee revenue in a manner that ensures compliance with applicable laws and policies, and it should ensure that it spends student fee revenue appropriately.

Sam Houston State University (SHSU) commingled laboratory fee revenue with other funds, which prevented auditors from determining whether SHSU collected and spent laboratory fee revenue in accordance with applicable laws and policies. SHSU also did not always appropriately manage and spend incidental fees in accordance with applicable laws and policies. It collected, spent, and transferred designated fees in accordance with applicable laws and policies.

The University of Houston spent most student fee revenue in accordance with applicable laws and policies, but it should improve its management of laboratory fees and its monitoring of fund balances in certain student fee accounts.

The University of Houston (UofH) appropriately spent and transferred most incidental fees and designated fees. Auditors were unable to determine whether UofH collected laboratory fees in accordance with applicable laws and policies. UofH should improve its monitoring of fund balances for incidental and laboratory fees.

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<sup>2</sup> TTU's TECHniques Center is an academic enhancement program within the Student Disability Services Office.

The University of Texas at San Antonio spent most student fee revenue in accordance with applicable laws and policies, but it should improve its monitoring of fund balances in certain student fee accounts.

The University of Texas at San Antonio (UTSA) spent and transferred incidental fees, most laboratory fees, and most designated fees in accordance with applicable laws and policies. UTSA should improve its monitoring of fund balances for incidental and laboratory fees. In addition, auditors were unable to determine whether UTSA spent University Center fee revenue in accordance with applicable laws and policies.

The University of North Texas should improve its monitoring of fund balances in certain student fee accounts.

The University of North Texas (UNT) spent and transferred incidental fees, most laboratory fees, and designated fees in accordance with applicable laws and policies. UNT should improve its monitoring of fund balances for incidental and laboratory fees.

### ***Summary of Management's Response***

The higher education institutions audited agreed with the recommendations in this report.

### ***Summary of Information Technology Review***

The information technology component of this audit focused on the review and testing of input controls, processing controls, and output controls for the automated systems involved in the creation, billing, and posting of student fees at the higher education institutions audited. Additionally, auditors reviewed access controls over the automated system(s) involved in the student fee process to determine whether established levels of access were appropriate for individual job duties.

Auditors did not identify any significant deficiencies in the automated controls related to the student fee process at four of the five higher education institutions audited. However, one of the five higher education institutions had users with excessive modification authority over fee tables. Specifically, users at UTSA had excessive levels of access to fee-related screens; this access would allow them to create, modify, or delete fee information. Excessive levels of access increase the risk that inappropriate data modifications could be made and create a lack of separation of duties. UTSA corrected these users' levels of access prior to the conclusion of this audit.

## ***Summary of Objectives, Scope, and Methodology***

The audit objectives were to:

- Determine whether selected higher education institutions' budgeting for and distribution and expenditure of selected student fees are in compliance with applicable laws, policies, and procedures to ensure that fees are assessed on a cost-recovery basis.
- Determine whether selected higher education institutions that have any fee accounts with unexpended balances at year-end have prepared justifications for maintaining the balances in accordance with the cost-recovery nature of the fees.

The audit scope covered a review and analysis of selected higher education institutions' budgeting, management, and expenditure of student fee revenues collected during fiscal year 2007.

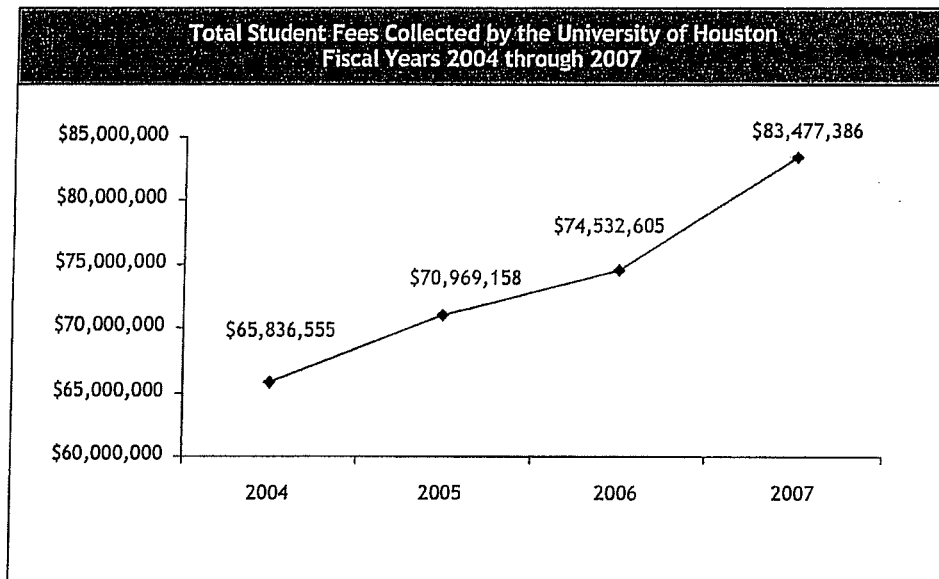
The audit methodology included collecting and reviewing information and documentation, analyzing account information for selected student fees, testing selected transactions, analyzing and evaluating the results of testing, and conducting interviews with the audited institutions' management and staff.

***The University of Houston Spent Most Student Fee Revenue in Accordance with Applicable Laws and Policies, But It Should Improve Its Management of Laboratory Fees and Its Monitoring of Fund Balances in Certain Student Fee Accounts***

The University of Houston (UofH) appropriately spent and transferred most incidental fees and designated fees. Auditors were unable to determine whether UofH collected laboratory fees in accordance with applicable laws and policies. UofH should improve its monitoring of fund balances for incidental and laboratory fees.

Figure 4 shows the trend in total student fees that UofH collected from fiscal year 2004 to fiscal year 2007.

Figure 4



Source: Unaudited information self-reported by the University of Houston.

UofH spent and transferred most incidental fees in accordance with applicable laws and policies. However, it should improve its monitoring of account balances.

Student Fees Audited at UofH

Incidental fees:

- Undergraduate Business Services fee.
- College of Natural Sciences and Mathematics Thesis and Dissertation Binding fee.
- Engineering Resource fee.
- Physics Incidental fee.
- Application fee.

Laboratory fee:

- Pharmacy Lab fee.

Designated fees:

- Student Services fee.
- Recreation and Wellness fee.

Total Student Fee Revenue

During fiscal year 2007, UofH collected \$83,477,386 in fees from students (an average of \$2,907 per full-time student during the fiscal year).

UofH spent and transferred most incidental fees in accordance with applicable laws and policies.

Texas Education Code, Section 54.504, states that “the rate of an incidental fee must reasonably reflect the actual cost to the university of the materials or services for which the fee is collected.” However, UofH had account balances in four of the incidental fee accounts tested at the end of fiscal year 2007. Allowing unspent fee revenue to be carried forward each fiscal year could result in the accumulation of balances. If not considered when setting future fee amounts, this accumulation could result in future fee rates being set too high. Specific account balance information at the end of fiscal year 2007 was as follows:

- UofH spent \$64,945 (57.2 percent) of the \$113,586 in Physics Incidental fee revenue collected in fiscal year 2007, ending the year with a balance of \$123,328 in that fee account. UofH plans to spend those funds on new laboratory equipment, including computers, printers, and scientific instruments.
- UofH spent \$16,362 (76.5 percent) of the \$21,395 in College of Natural Sciences and Mathematics Thesis and Dissertation Binding fee collected in fiscal year 2007, ending the year with a balance of \$9,750 in that fee account. UofH collected Thesis and Dissertation Binding fee revenue at the end of fiscal year 2007; however, it did not make payments for binding services until fiscal year 2008. UofH asserts that this time frame is expected, given the natural business cycle of the services involved.
- UofH spent \$510,788 (74.0 percent) of the \$689,914 in Engineering Resource fee revenue collected in fiscal year 2007, ending the year with a balance of \$305,018 in that fee account.
- UofH ended fiscal year 2007 with a balance of \$666,723 in the Undergraduate Business Services fee account. UofH spent \$546,181 (81.9 percent) of the available balance during fiscal year 2008 on seating, blinds, and other items for classroom renovations. These expenditures were for purposes other than “materials or services for which the fee was collected,” as required by Texas Education Code, Section 54.504.

Information regarding the amounts collected and the account balances for selected incidental fees is presented in Table 2.

Table 2

Selected Incidental Fee Account Balances at UofH As of the End of Fiscal Year 2007		
Fee Name	Fee Revenue Collected in Fiscal Year 2007	Fee Account Balance as of the End of Fiscal Year 2007
Physics Incidental Fee	\$ 113,586	\$123,328
College of Natural Sciences and Mathematics Thesis and Dissertation Binding Fee	\$ 21,395	\$ 9,750
Engineering Resource Fee	\$ 689,914	\$305,018
Undergraduate Business Services Fee	\$4,825,726	\$666,723

Auditors were unable to determine whether UofH collected laboratory fees in accordance with applicable laws and policies. Additionally, UofH should improve its monitoring of laboratory fee account balances.

UofH spent laboratory fees in accordance with applicable laws and policies. However, auditors were unable to determine whether UofH collected laboratory fees in accordance with Texas Education Code, Section 54.501, which states that laboratory fee rates “may not exceed the cost of actual materials and supplies used by the student.”

**Pharmacy Lab Fee Account Balance and Revenue Information**

UofH collected \$27,002 in Pharmacy Lab fee revenue during fiscal year 2007. UofH ended the fiscal year with a balance of \$140,679 in that fee account.

The reason auditors were unable to determine whether this fee was collected in accordance with statute was because UofH made expenditures related to pharmacy laboratory operations with funds from other accounts, rather than with funds it collected from the Pharmacy Lab fee. This caused an increase in the fund balance for the Pharmacy Lab fee account. UofH spent \$2,761 (10.2 percent) of the \$27,002 collected as Pharmacy Lab fee revenue during fiscal year 2007, ending the year with a balance of \$140,679 in that fee account. UofH accumulated this balance to fund a planned update of its Pharmacy Skills Laboratory.

UofH appropriately collected, spent, and transferred all designated fees in accordance with applicable laws and policies.

UofH collected, spent, and transferred Student Services fees and Recreational and Wellness fees as required by the Texas Education Code, Sections 54.5061 and 54.528, respectively.

## Recommendations

UoffH should:

- Account for student fees in a manner that allows it to ensure that it collects and spends funds in accordance with applicable laws and policies.
- Regularly review and determine whether it sets student fee rates in accordance with applicable laws and policies.
- Monitor student fee account balances to ensure that it continues to set student fee rates in accordance with applicable laws and policies.

## Management's Response

*Thank you for the opportunity to provide comments in response to your recommendations for the University of Houston in your report on student fees at selected higher education institutions. The University of Houston recognizes its responsibility for the management of fees levied upon students and uses a comprehensive organization of fee revenue and expenditures in the University's chart of accounts to identify the uses of these funds. Additionally, the University requires an annual report of collections and expenditures of each fee which is then subjected to analysis and review. Finally, any new fee or change to an existing fee is brought before the University Tuition and Fee Committee for recommendation to the President and to the Board of Regents. Our responses to your recommendations in your report on student fees at selected higher education institutions are as follows:*

***Recommendation: Account for student fees in a manner that allows it to ensure that it collects and spends funds in accordance with applicable laws and policies.***

*To ensure compliance with applicable laws and policies, the University will modify the existing training for fee management and reporting. The University of Houston establishes specific cost centers in the chart of accounts for every incidental fee to monitor collection and expenditure of each fee, and requires an annual review of revenue and expenditure by each cost center manager. Reporting processes and training materials will be updated to emphasize identification of potentially inappropriate expenditures and correction of those expenditures.*

***Person responsible for implementing corrective actions:***

*Executive Director, Academic Budgets and Administration, University of Houston*

***Timeline for implementation:***

*This action will be complete by December 31, 2008.*

***Recommendation: Regularly review and determine whether it sets student fee rates in accordance with applicable laws and policies.***

*The University of Houston will incorporate review of incidental student fee rates into the college budget building process in order that rates are in accordance with applicable laws and policies. The University's budget cycle for fiscal year 2009 will begin in December, 2008 and complete in August, 2009.*

***Person responsible for implementing corrective actions:***

*Executive Director Academic Budgets and Administration, University of Houston*

***Timeline for implementation:***

*This action will be complete by August 31, 2009.*

***Recommendation: Monitor student fee account balances to ensure that it continues to set fee rates in accordance with applicable laws and policies.***

*The University of Houston will review its policies for ending balances in student fee cost centers to ensure that those policies are in compliance with applicable law. Policy review will be completed by December 31, 2008 and revised policies will be incorporated into the fee review cycle for fiscal year 2009.*

***Person responsible for implementing corrective actions:***

*Executive Director, Academic Budgets and Administration, University of Houston*

***Timeline for implementation:***

*This action will be complete by May 31, 2009.*