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**State Auditor**

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.

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# Detailed Results

Chapter 1

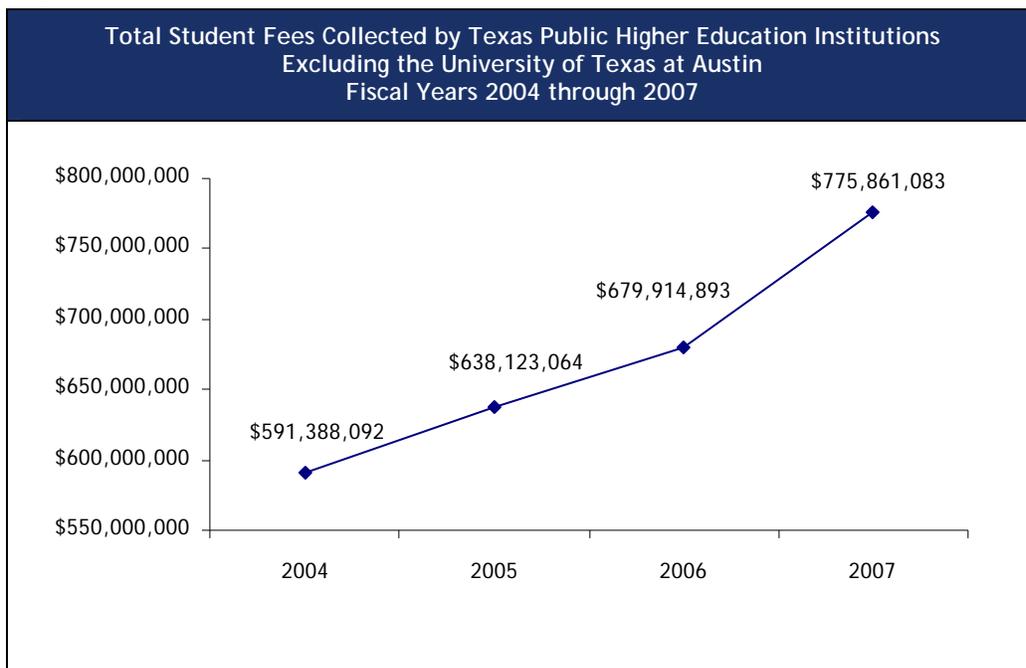
## ***More Specificity in Student Fee Requirements and Improved Consistency in Management of Student Fees Would Increase Accountability***

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The total amount of student fees that higher education institutions have collected has increased since fiscal year 2004.

Total student fees collected at all Texas public higher education institutions, excluding the University of Texas at Austin<sup>3</sup>, steadily increased each year from fiscal year 2004 to fiscal year 2007, as shown in Figure 1.<sup>4</sup>

Figure 1



Source: Unaudited information self-reported by higher education institutions.

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<sup>3</sup> Revenue for the University of Texas at Austin has been excluded from Figure 1 due to that higher education institution's full implementation of flat rate tuition in Fall 2005. Mandatory, incidental, and course fees were frozen at fiscal year 2005 rates, and they are now billed as a part of tuition.

<sup>4</sup> The information in Figure 1 excludes information on health-related institutions and two-year institutions.

Higher education institutions could interpret student fee requirements more consistently if the Texas Education Code and internal policies were more specific.

#### Student Fee Types Audited

Auditors tested the following categories of student fees at five higher education institutions:

- **Laboratory Fees** - Fees organized under Section 54.501 of the Texas Education Code. These fees are charged to students to "cover the general cost of laboratory materials and supplies used by a student," and the rates charged "may not exceed the cost of actual materials and supplies used by the student."
- **Incidental Fees** - Fees organized under Section 54.504 of the Texas Education Code. These are discretionary fees charged to students for services or materials utilized by students. These fees are to be charged at a rate that "must reasonably reflect the actual cost to the university of the materials or services for which the fee is collected."
- **Designated Fees** - These fees are organized under various sections of the Texas Education Code. The statutes regarding these fees often include provisions that specify designated accounts into which fee revenue must be deposited, as well as specific purposes for which the fees may be expended.

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.

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. For example, key terms in the Texas Education Code, such as "operations," are not clearly defined. As a result, auditors were unable to determine whether two of the five higher education institutions audited—Texas Tech University and the University of Texas at San Antonio—spent designated student fee revenue in accordance with applicable laws and policies.

The lack of specificity also led to inconsistent classification of student fee revenue by the five higher education institutions audited. Fees collected for a similar purpose were collected and classified under statutory authority granted by different sections of the Texas Education Code.

Higher education institutions should account for student fee revenue in a manner that allows them to ensure that 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. For example, two of the five higher education institutions audited—Sam Houston State

University and Texas Tech University—do not account for laboratory fee revenue in a manner that allows them to ensure that they collect and spend funds in accordance with applicable laws and policies.

Higher education institutions spent and transferred the majority of the funds collected from student fee revenue tested in accordance with applicable laws and policies. However, improvements can be made.

Higher education institutions spent and transferred funds collected from 30 of 40<sup>5</sup> student fees audited in accordance with applicable laws and policies. However, improvements should be made to ensure that all student fee revenues are spent and transferred appropriately. Four of the five higher education institutions audited made expenditures of student fee revenue that were not for the purposes for which the fees were collected. These expenditures were for items such as travel, moving expenses, data ports, a

<sup>5</sup> Laboratory fees tested at each higher education institution were treated as a single fee for testing purposes.

class field trip, and a birthday celebration. These four higher education institutions were Sam Houston State University, Texas Tech University, the University of North Texas, and the University of Texas at San Antonio.

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. The amounts of these balances in audited student fee accounts ranged from \$9,750 to \$2,213,380.

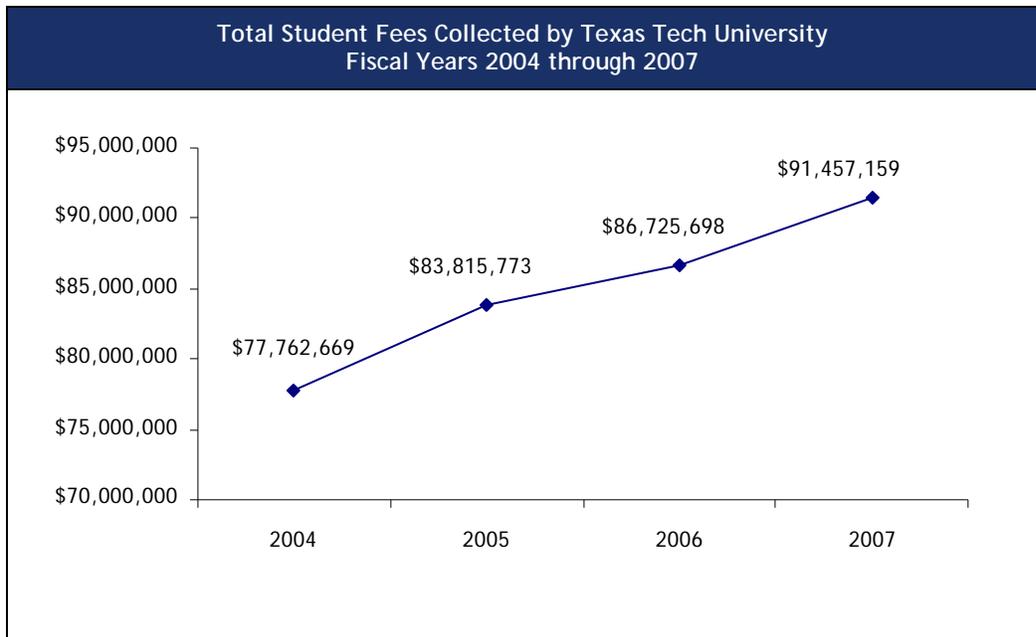
## ***Texas Tech University Should Account for Student Fee Revenue in a Manner That Ensures Compliance with Applicable Laws and Policies***

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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, 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.

Figure 2 shows the trend in total student fees that TTU collected from fiscal year 2004 to fiscal year 2007.

Figure 2



Source: Unaudited information self-reported by Texas Tech University.

TTU commingled laboratory fee revenue with other funds. This prevented auditors from determining whether TTU collected and spent laboratory fees in accordance with applicable laws and policies.

#### Student Fees Audited at TTU

##### Laboratory fees:

- Auditors were unable to test laboratory fees at TTU because TTU is not able to track laboratory fee revenue from initial deposit to expenditure of these funds.

##### Incidental fees:

- Course Fee - Mass Communications.
- Study Abroad Operations fee.
- Spain Program fee.
- TECHniques Center fee.

##### Designated fees:

- Student Services fee.
- Recreational Sports fee.
- Student Union fee.

#### Total Student Fee Revenue

During fiscal year 2007, TTU collected \$91,457,159 in fees from students (an average of \$3,475 per full-time student during the fiscal year).

Auditors were unable to determine whether TTU collected and spent laboratory fees in accordance with applicable laws and policies. TTU's commingling of funds prevents it from tracking laboratory fee revenue from the initial deposit to the expenditure of these funds. Therefore, TTU cannot ensure that it sets laboratory fee rates in accordance with Texas Education Code, Section 54.501. That statute states that laboratory fees shall be set and collected "in an amount sufficient to cover the general cost of laboratory materials and supplies used by a student" and that "the amount of the laboratory fee may not exceed the cost of actual materials and supplies used by the student."

TTU collected, spent, and transferred funds for three incidental fees in accordance with applicable laws and policies. However, auditors were unable to determine whether TECHniques Center fee revenue was spent in compliance with applicable laws and policies as these funds were commingled with other fees.

TTU collected, spent, and transferred Course Fee – Mass Communication fee revenue, Study Abroad Operations fee revenue, and Spain Program fee revenue in accordance with applicable laws and policies.

#### TECHniques Center Fee Information

Auditors were unable to determine the balance of TECHniques Center fee funds because TTU commingled revenue from that fee with other funds into a single account during fiscal year 2007. That account had a balance of \$463,461 at the end of fiscal year 2007.

Auditors were unable to determine whether TTU collected and spent TECHniques Center fee revenue in accordance with applicable laws and policies. The TECHniques Center is an academic enhancement program within the Student Disability Services Office. Students in this program pay the TECHniques Center fee to receive one-to-one services offered to students with learning disabilities and attention deficit disorder. TTU commingled TECHniques Center fee revenue with funds from other fees in a single Student Disability Services account during fiscal year 2007. This commingling of funds

prevents the tracking of TECHniques Center fee revenue from initial deposit to expenditure. Therefore:

- It cannot be determined whether TTU spent TECHniques Center fee revenue for "materials or services for which the fee is collected" as required by Texas Education Code, Section 54.504. Specifically, 4 of 19 (21.1 percent) non-payroll expenditures tested were for employee gifts and food items, which are not associated with the purpose of the TECHniques Center Fee. TTU asserts that it spent TECHniques Center fee revenue on salary and wages for TECHniques Center staff during fiscal year 2007. The salaries and wages of these employees exceeded fee revenue collected

during the year. All payroll expenditures tested from the TECHniques Center fee account were made in accordance with applicable laws and policies.

- It cannot be determined whether TTU collected TECHniques Center fee revenue in accordance with Texas Education Code, Section 54.504, which 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.” At the end of fiscal year 2007, TTU had a balance of \$463,461 in the Student Disability Services account (80.2 percent of all funds deposited in that account in fiscal year 2007). However, it cannot be determined whether the balance in the Student Disability Services account is from TECHniques Center fee revenue or other funds.

TTU collected, spent, and transferred funds from Student Services fees tested in accordance with applicable laws and policies, but it did not consistently do so for Recreational Sports fees. TTU commingled Student Union fees and Recreational Sports fees with other funds. This prevented auditors from determining with certainty whether TTU spent these fees in compliance with applicable laws and policies.

TTU collected, spent, and transferred Student Services fees as required by Texas Education Code, Section 54.503.

TTU collected and transferred Recreational Sports fees in accordance with applicable laws and policies. Auditors were unable to determine with certainty whether TTU spent Recreational Sports fee revenues in accordance with applicable laws and policies. The Recreational Sports Center receives additional revenues through its business operations (such as an aquatics center, outdoor pursuits, and sports clubs), and TTU commingles those revenues with Recreational Sports fee revenue. One of 35 (2.9 percent) expenditures tested from Recreational Sports Center funds was not spent in accordance with Texas Education Code, Section 54.509. This expenditure was for a birthday celebration in honor of a TTU employee. It cannot be determined with certainty whether the funds used to pay for the celebration were from Recreational Sports fee revenues. However, nearly 79.0 percent of the Recreational Sports Center’s funding in fiscal year 2007 was from the Recreational Sports fee.

TTU collected and transferred Student Union fees in accordance with Texas Education Code, Section 54.5241. However, lack of specificity in the Texas Education Code, along with the commingling of funds, prevented auditors from determining whether TTU spent Student Union fees tested in accordance with Texas Education Code, Section 54.5241. That statute states Student Union fees are collected “for the purpose of providing revenue for financing, operating, maintaining, improving, and equipping student union facilities or for acquiring or constructing additions to those facilities.” Ten of 28 (35.7 percent) Student Union non-payroll expenditures tested were for purposes that

may not be directly related to the operations of the Student Union building. These expenditures were for promotional items, student activities, and goods for resale.

## Recommendations

TTU 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.
- Spend student fee revenue 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

*Management agrees with the findings and recommendations of the State Auditor's Office.*

*TTU is in the process of implementing a new finance system (Banner) which will be live beginning September 1, 2008.*

- *With the exception of the laboratory fees, management anticipates that the Banner finance system implementation will incorporate the necessary changes required to properly account for student fee revenues as interpreted by the State Auditor's Office to be in compliance by January 1, 2009.*
- *Regarding laboratory fees, the State Auditor's Office findings noted that "Higher education institutions could interpret student fee requirements more consistently if the Texas Education Code and internal policies were more specific."*
  - ♦ *TTU interpreted Texas Education Code Section 54.501(b) "Laboratory fees collected by an institution under this section shall be accounted for as educational and general funds" to mean that such student fee revenue was to be accounted for as part of the institution's educational and general funds as defined in Texas Education Code, Section 51.009(c). Therefore, no separate accounting was established other than to collect the fees and include them with TTU educational and general revenue appropriated in the General Appropriations Act*

*for operations. During fiscal year 2009 TTU will work on a solution to address the separate accountability as interpreted by the State Auditor's Office to be in compliance by September 1, 2009.*

*In addition to the Banner finance system implementation, management will revise or establish student fee revenue operating policies and procedures to ensure proper financial management in accordance with applicable laws and policies including: separate fund management (no commingling of student fee revenue with other sources of revenue) and regular review of rates, expenditures, and fund balances.*

*Implementation Date, non-laboratory fees: January 1, 2009*

*Implementation Date, laboratory fees: September 1, 2009*

*Responsible Person: Vice President Administration  
and Finance*

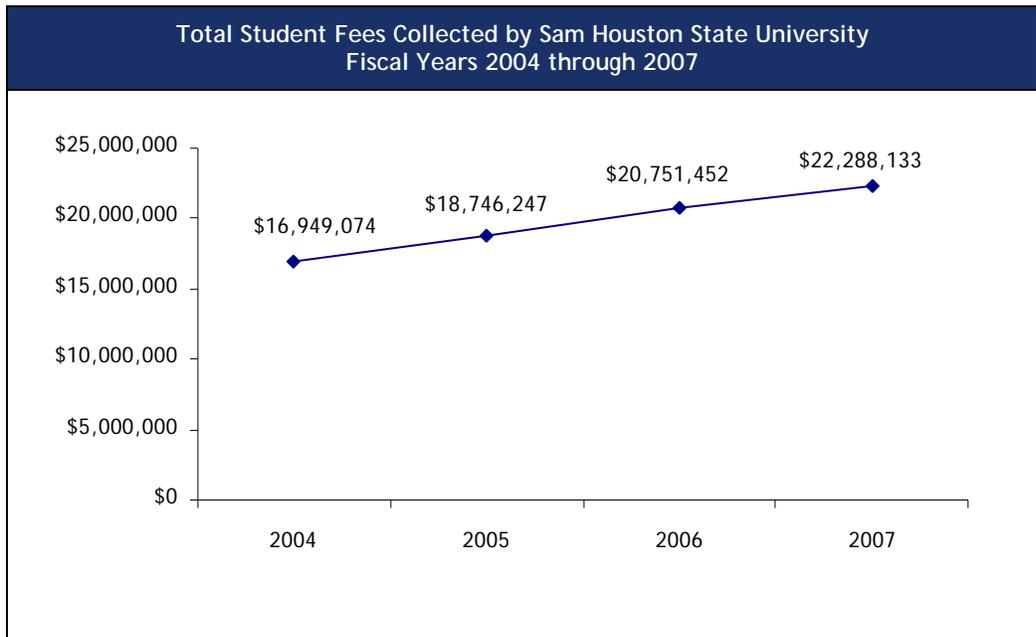
***Sam Houston State University Should Manage Student Fee Revenue in a Manner That Ensures Compliance with Applicable Laws and Policies, and It Should Ensure That It Spends Student Fee Revenue Appropriately***

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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 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.

Figure 3 shows the trend in total student fees that SHSU collected from fiscal year 2004 to fiscal year 2007.

Figure 3



Source: Unaudited information self-reported by Sam Houston State University.

SHSU commingled laboratory fee revenue with other funds. This prevented auditors from determining whether it collected and spent laboratory fee revenue in accordance with applicable laws and policies.

Auditors were unable to determine whether SHSU collected and spent laboratory fees in accordance with applicable laws and policies. SHSU's commingling of laboratory fee revenue with tuition prevents it from tracking laboratory fee revenue from the initial deposit to the expenditure of these funds. This prevents SHSU from ensuring that laboratory fee revenue is spent on "laboratory materials and supplies used by a student," as required by Texas Education Code, Section 54.501.

In addition, SHSU charges a flat fee for all laboratory courses. There is no indication that SHSU performed a review of laboratory fee rates that would substantiate a flat rate for all laboratory courses and, therefore, ensure compliance with Texas Education Code, Section 54.501. This statute requires that fee rates be set "in an amount sufficient to cover the general cost of laboratory materials and supplies used by a student" and that "the amount of the laboratory fee may not exceed the cost of actual materials and supplies used by the student."

SHSU did not always spend incidental fee revenue in accordance with applicable laws and policies. In addition, SHSU should improve processes for monitoring incidental fee account balances.

SHSU spent and transferred University Center fee revenue and Course fee<sup>6</sup> revenue for purposes other than "materials or services for which the fee is collected," as required by Texas Education Code, Section 54.504. Specifically:

- Four of 30 (13.3 percent) expenditures of University Center fees tested were for items such as travel and moving expenses not directly related to the University Center.
- Six of 40 (15.0 percent) expenditures of Course fees tested were for items such as food, salaries, travel, and professional development that were not directly related to the courses for which those fees were collected.
- One of eight (12.5 percent) transfers of Course fees tested was not made for the purpose of the fee. This transfer was for professional development; however, according to SHSU policy, revenue from Course fees may not be used to pay for professional development.

<p><b>Student Fees Audited at SHSU</b></p> <p>Laboratory fees: Auditors were unable to test laboratory fees at SHSU because SHSU is not able to track laboratory fee revenue from initial deposit to expenditure of these funds.</p> <p>Incidental fees:</p> <ul style="list-style-type: none"><li>▪ University Center fee.</li><li>▪ Distance Learning fee.</li><li>▪ Executive MBA Program fee.</li><li>▪ Course fees.</li></ul> <p>Designated fees:</p> <ul style="list-style-type: none"><li>▪ Student Services fee.</li><li>▪ Recreational Sports fee.</li><li>▪ Student Center fee.</li></ul> <p><b>Total Student Fee Revenue</b></p> <p>During fiscal year 2007, SHSU collected \$22,288,133 in fees from students (an average of \$1,530 per full-time student).</p>
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<sup>6</sup> SHSU ceased collecting Course fees in fiscal year 2008.

All expenditures and transfers tested for the Distance Learning fee and Executive MBA Program fee were made in accordance with applicable laws and policies.

SHSU had accumulated significant balances at the end of fiscal year 2007 in the Distance Learning fee account, the Executive MBA Program fee account, and the University Center fee account. The accumulation of significant account balances is not in accordance with Texas Education Code, Section 54.504, which 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.” Specific account balance information at the end of fiscal year 2007 was as follows:

- SHSU spent \$592,816 (70.1 percent) of the \$845,688 in Distance Learning fee revenue collected in fiscal year 2007, ending the year with a balance of \$909,911. SHSU developed plans to address the Distance Learning fee account balance at the beginning of fiscal year 2007. However, these plans did not effectively reduce the account balance during that year. SHSU’s plans included spending the account balance on the following items:
  - ♦ Payroll expenditures for professors.
  - ♦ Payroll expenditures for student and graduate assistant positions.
  - ♦ Upgrades to distance learning technology.
  - ♦ Professional development related to the SHSU Distance Learning Program.
- SHSU spent \$244,627 (70.1 percent) of the \$349,016 in Executive MBA Program fee revenue collected in fiscal year 2007, ending the year with a balance of \$179,320. SHSU management stated that SHSU maintains a balance in the Executive MBA Program fee account because the program must cover costs using only fee revenue and private donations.
- SHSU spent \$1,064,594 of the University Center fee funds available during fiscal year 2007. This amount represented all of the fee revenue collected during the fiscal year and an additional 25 percent of the account balance for that fee at the beginning of the fiscal year. This resulted in an ending year balance of \$468,167. SHSU created plans to reduce the balance, which included using the funds for:
  - ♦ Payroll expenditures related to two staff positions located at the University Center.
  - ♦ Travel expenditures related to courses taught at the University Center.

Information regarding the amounts collected and the account balances for selected incidental fees is presented in Table 1.

Table 1

Selected Incidental Fee Account Balances at SHSU 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
Distance Learning Fee	\$845,688	\$909,911
Executive MBA Program Fee	\$349,016	\$179,320
University Center Fee	\$964,795	\$468,167

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

SHSU collected, spent, and transferred Student Services fees, Recreational Sports fees, and Student Center fees as required by the Texas Education Code, Sections 54.503, 54.538, and 54.523, respectively.

### Recommendations

SHSU 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.
- Spend student fee revenue 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

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

**Management's Response:** *Management agrees that improvements in the accounting for student fees will be made to account for and ensure that*

*collection and spending of fees are in accordance with applicable laws and policies.*

*SHSU is considering terminating the collection of laboratory fees for science labs and music labs that total approximately \$218,675 annually. Use of designated tuition fee monies in lieu of charging the lab fees is being considered. Also being considered revamping the lab fee accounting to utilize specific income and corresponding expense accounts for each science and music lab fee collected. The Vice President for Academic Affairs and Provost and the Vice President for Finance and Operations will recommend to University President and will implement by January 2009, one of these plans to afford better accounting for the collection and spending of lab fees.*

*The expenditure items questioned by the State Auditor regarding use of the university center fee income during fiscal year '07 has been corrected and repaid by utilizing tuition fee fund balance. The transfer of monies is in the amount of \$6,543.74 for moving expenses, travel to Washington, D.C., Puebla, Mexico, and Cairns, Australia by SHSU faculty and was completed by journal voucher #4475 dated August 25, 2008.*

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

***Management's Response:*** *Management agrees. The President's Cabinet consisting of Vice President Academic Affairs and Provost, Vice President for Finance and Operations, Vice President for Student Services, Vice President for Enrollment Management and Vice President for Advancement will review all student rates at SHSU each November of each fiscal year and recommend changes, if appropriate, to the University President to ensure ongoing compliance with applicable laws and policies regarding the fees.*

***Recommendation:*** *Spend Student fee revenue in accordance with applicable laws and policies.*

***Management's Response:*** *Management agrees and will review and implement procedures to insure compliance with applicable laws and policies regarding students fees.*

***Recommendation:*** *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:*** *Management agrees. Each Vice President at SHSU will monitor and review student fee fund balances during the fiscal year to insure that SHSU sets student service fee rates in accordance with applicable laws and policies.*

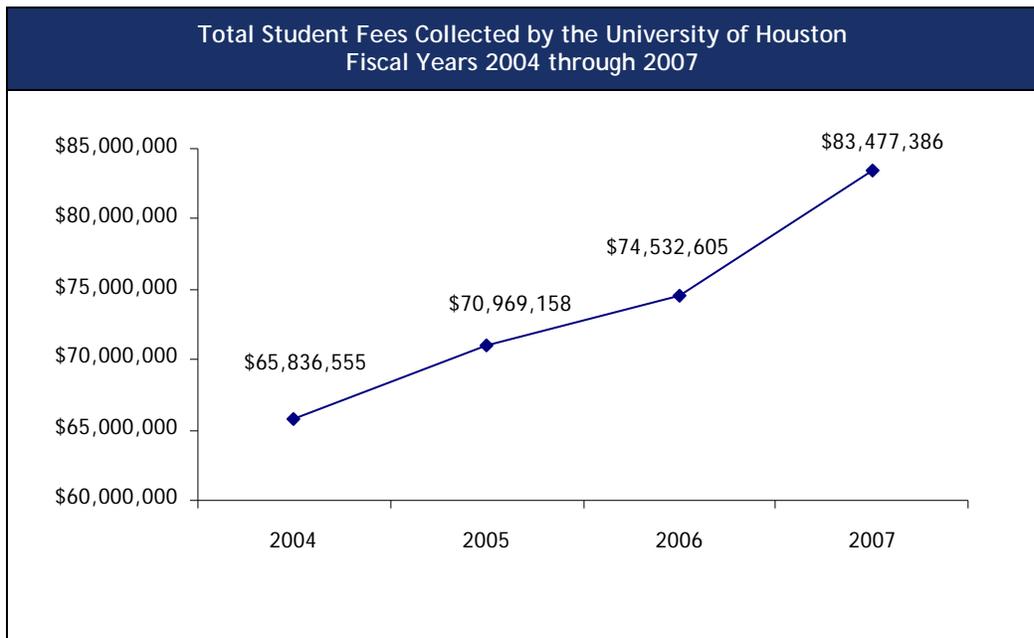
***The University of Houston Spent Most Student Fee Revenue in Accordance with Applicable Laws and Policies, But It Should Improve Its Management of Laboratory Fees and Its Monitoring of Fund Balances in Certain Student Fee Accounts***

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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

UofH 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.*

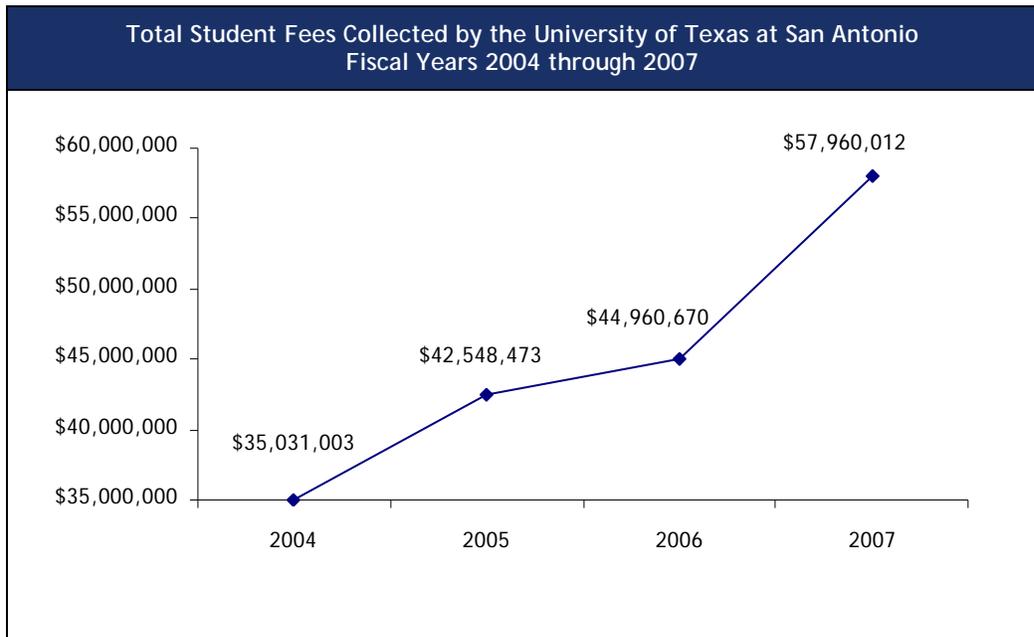
## ***The University of Texas at San Antonio Spent Most Student Fee Revenue in Accordance with Applicable Laws and Policies, But It Should Improve Its Monitoring of Fund Balances in Certain Student Fee Accounts***

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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.

Figure 5 shows the trend in total student fees that UTSA collected from fiscal year 2004 to fiscal year 2007.

Figure 5



Source: Unaudited information self-reported by the University of Texas at San Antonio.

UTSA spent and transferred incidental fees in accordance with applicable laws and policies, but it should improve its monitoring of incidental fee account balances.

**Student Fees Audited at UTSA**

Incidental fees:

- Energy fee.
- College of Sciences (COS) Learning Resource fee.
- Core Curriculum Learning Resource fee.
- Instrument User's Fee - Biology.

Laboratory fees:

- Chemistry fee.
- Physics and Astronomy fee.
- Biology fee.

Designated fees:

- University Center fee.
- Recreational Center fee.
- Student Services fee.

**Total Student Fee Revenue**

During fiscal year 2007, UTSA collected \$57,960,012 in fees from students (an average of \$2,595 per full-time student during the fiscal year).

UTSA spent and transferred 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, all incidental fees tested had account balances 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:

- UTSA spent \$800,866 (81.6 percent) of the \$981,427 in Core Curriculum Learning Resource fee revenue collected in fiscal year 2007 ending the year with a balance of \$215,714 in that fee account
- UTSA spent \$743,829 (96.3 percent) of the \$772,474 in College of Sciences (COS) Learning Resource fee revenue collected in fiscal year 2007 ending the year with a balance of \$320,955 in that fee account. UTSA accumulated this balance because it received a Texas Workforce Commission grant for computer science, which provided funding for items that would have otherwise been purchased from COS Learning Resource fee funds. In addition, UTSA had unfilled positions during the fiscal year, and the salaries for those positions would have been paid using COS Learning Resource fee funds. UTSA asserted that, after the grant ends in Summer 2008 and the positions are filled, the balance will be reduced.
- UTSA spent \$54,892 of the Instrument User's Fee – Biology funds available during fiscal year 2007. This amount represents all of the fee revenue collected during the fiscal year and an additional 31.6 percent of the account balance for that fee at the beginning of the fiscal year. This resulted in an ending year balance of \$32,948 in that fee account

UTSA began collecting the Energy fee in fiscal year 2007 and collected \$2,874,132 in fee revenue. At the end of fiscal year, 2007 the balance in the fee account was \$2,213,380. UTSA began collecting this fee in anticipation of a budget shortfall that could have resulted if energy prices had remained at the same level as after Hurricane Katrina. However, prices stabilized and UTSA did not need the remaining fee revenue to cover utility expenses. The revenue collected from Energy fees represented 38.6 percent of the actual utilities expenditures UTSA made in fiscal year 2007. UTSA anticipates that,

with current utility trends and no additional funding for utilities, it will spend all available resources by the end of fiscal year 2011.

Information regarding the amounts collected and the account balances for selected incidental fees is presented in Table 3.

Table 3

Selected Incidental Fee Account Balances at UTSA 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
Core Curriculum	\$ 981,427	\$ 215,714
COS Learning Resource Fee	\$ 772,474	\$ 320,955
Instrument User's Fee - Biology	\$ 39,716	\$ 32,948
Energy Fee	\$2,874,132	\$2,213,380

**UTSA spent most laboratory fees in accordance with applicable laws and policies.**

UTSA spent Chemistry and Biology Laboratory fees revenue in accordance with applicable laws and policies. However, 3 of 10 (30.0 percent) Physics and Astronomy Laboratory fees expenditures tested were not for laboratory materials and supplies as required by Texas Education Code, Section 54.501. These expenditures were for heavy duty shelving, data ports, and cabling.

Additionally, UTSA should examine its policy for managing fund balances in laboratory fee accounts. At the end of fiscal year 2007, UTSA transferred all remaining funds left in laboratory fee accounts to the Provost/Vice President Reserve account and Lapse Balance Allocation account. After this transfer was made it was not possible to determine whether remaining laboratory fee balances were spent in accordance with Texas Education Code, Section 54.501. UTSA transferred the balances of all laboratory fee accounts tested to these accounts. At the end of fiscal year 2007, less than 5 percent of total laboratory fee revenue was transferred.

UTSA collected, spent, and transferred two designated fees in accordance with applicable laws and policies. However, auditors were unable to determine whether University Center fee revenue was spent in accordance with applicable laws and policies due to commingling of funds in the fee account.

UTSA collected, spent, and transferred Student Services and Recreational Center fees revenue as required by Texas Education Code, Sections 54.503 and 54.543, respectively. However, lack of specificity in the Texas Education Code, along with the commingling of funds, prevented auditors from determining whether UTSA spent University Center fees in accordance with Texas Education Code, Section 54.532. That statute states that University

Center fees are collected “for the sole purpose of financing, operating, maintaining, and improving a student union building for the University of Texas at San Antonio.” Specifically:

- Sixteen of 20 (80.0 percent) non-payroll expenditures tested were for promotional items, student activities, and goods for resale.
- Eight of 15 (53.3 percent) payroll expenditures tested were for positions that may not be directly related to the operations of the Student Union building. These positions include events manager, student activities director, and program coordinator.

**UTSA should strengthen controls over user access related to fee creation, modification, and deletion.**

Ten of 13 (76.9 percent) users had excessive levels of access to fee-related screens in one of UTSA’s information systems. Their access would allow them to create, modify, or delete fee information. UTSA corrected these users’ levels of access prior to conclusion of this audit.

## Recommendations

UTSA 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.
- Spend student fee revenue 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.
- Continue to grant users of its information systems access levels that are appropriate for their job functions.

## Management’s Response

*UTSA agrees with all of the recommendations and the Associate Vice President for Financial Affairs will oversee the implementation process.*

*Security profiles (Banner system access to make fee rate changes and set-up tables) were immediately corrected as noted in the report.*

*A process and timeline have been created to perform systematic reviews of fee balances, transfers, fee rates and utilization in accordance with applicable laws and policies effective September 1, 2008. These reviews will be ongoing.*

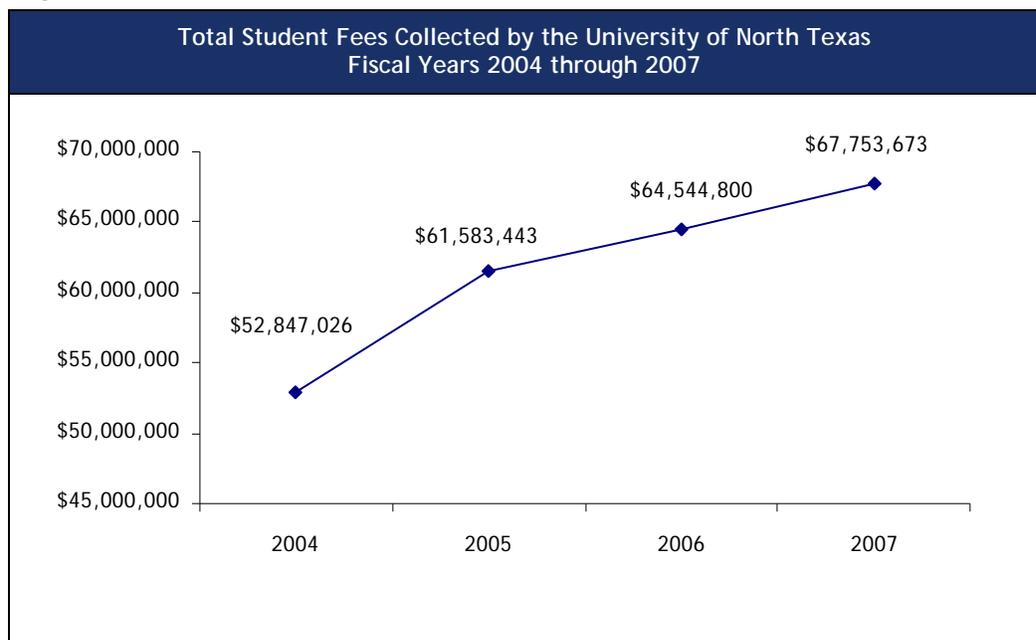
## ***The University of North Texas Should Improve Its Monitoring of Fund Balances in Certain Student Fee Accounts***

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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.

Figure 6 shows the trend in total student fees that UNT collected from fiscal year 2004 to fiscal year 2007.

Figure 6



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

UNT spent and transferred funds from incidental fees in accordance with applicable laws and policies, but it should improve its monitoring of the account balances for incidental fees.

#### Student Fees Audited at UNT

##### Incidental fees:

- College of Business Administration (COBA) Computing fee.
- Math Assessment fee.
- Biology Materials fee.
- Music Basic Course fee.

##### Laboratory fees:

- Merchandising and Hospitality Management Lab fee.
- Biological Sciences Lab fee.
- Engineering Technology Lab fee.

##### Designated fees:

- Student Service fee.
- Recreational Facility fee.
- Student Union fee.

#### Total Student Fee Revenue

During fiscal year 2007, UNT collected \$67,753,673 in fees from students (an average of \$2,424 per full-time student during the fiscal year).

UNT spent and transferred 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.”

Additionally, UNT policy requires that the rate of an incidental fee be reduced when less than 90 percent of the revenue collected in a fiscal year is spent. UNT spent less than 90 percent of Biology Materials fee revenue and Math Assessment fee revenue in fiscal year 2007, and it complied with its policy and decreased rates for both of these fees during fiscal year 2008. Specifically:

- UNT spent \$74,856 (72.5 percent) of the \$103,301 collected as Biology Materials fee revenue during fiscal year 2007, ending the year with a balance of \$32,971 in that fee account.
- UNT spent \$307,883 (87.5 percent) of the \$351,736 collected as Math Assessment fee revenue during fiscal year 2007, ending the year with a balance of \$62,173 in that fee account.

UNT spent at least 90 percent of the revenue collected for the College of Business Administration (COBA) Computing fee and Music Basic Course fee in fiscal year 2007. Both of these fee accounts had balances at the end of the fiscal year. 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:

- UNT spent \$557,530 (95.1 percent) of the \$586,573 in COBA Computing fee revenue collected in fiscal year 2007, ending the year with a balance of \$77,227 in that fee account.
- UNT spent \$672,597 of the Music Basic Course fee funds available during fiscal year 2007. This amount represented all of the fee revenue collected during the fiscal year and an additional 22.9 percent of the account balance for that fee at the beginning of the fiscal year. This resulted in an ending year balance of \$97,377 in that fee account.

Information regarding the amounts collected and the account balances for selected incidental fees is presented in Table 4.

Table 4

Selected Incidental Fee Account Balances at UNT 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
Biology Materials Fee	\$103,301	\$32,971
Math Assessment Fee	\$351,736	\$62,173
COBA Computing Fee	\$586,573	\$77,227
Music Classroom Support Fee	\$643,632	\$97,377

UNT spent most laboratory fees in accordance with applicable laws and policies, but it should improve its monitoring of the account balances for laboratory fees.

UNT spent Merchandising and Hospitality Management and Engineering Technology laboratory fees in accordance with applicable laws and policies. However, one of 10 (10.0 percent) expenditures tested for the Biological Sciences laboratory fee was not for laboratory materials and supplies as required by Texas Education Code, Section 54.501. This expenditure was for students to participate in a class field trip.

Additionally, UNT should examine its policy for managing fund balances in laboratory fee accounts. At the end of each fiscal year, UNT transfers all remaining funds in laboratory fee accounts to a reserve account. After this transfer is made, however, it is not possible to determine whether remaining laboratory fee balances were spent in accordance with Texas Education Code, Section 54.501. UNT transferred the balances of two laboratory fee accounts tested to the reserve account, and the amounts transferred indicated that fee rates were not set in compliance with Texas Education Code, Section 54.501, which states that “the amount of the laboratory fee may not exceed the cost of actual materials and supplies used by the student.” Specific account balance information at the end of fiscal year 2007 was as follows:

- The Engineering Technology laboratory fee account had a balance of \$2,880 (14.4 percent of the \$20,020 collected as fee revenue during fiscal year 2007).
- The Merchandising and Hospitality Management laboratory fee account had a balance of \$2,364 (17.5 percent of the \$13,514 collected as fee revenue during fiscal year 2007).

Information regarding the amounts collected and the account balances for selected laboratory fees is presented in Table 5.

Table 5

Selected Laboratory Fee Account Balances at UNT 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
Engineering Technology Laboratory Fee	\$20,020	\$2,880
Merchandising and Hospitality Management	\$13,514	\$2,364

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

UNT collected, spent, and transferred Student Service fees, Recreational Facility fees, and Student Union fees as required by the Texas Education Code, Sections 54.503, 54.5091, and 54.519, respectively.

### Recommendations

UNT 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.
- Spend student fee revenue 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

*Overall, we concur with your recommendations.*

*Our normal policy is to annually review our fees in accordance with state laws. We have corrected the errors that were identified by the auditors and will institute procedures to more closely monitor year-end balances.*

# Appendices

Appendix 1

## **Objectives, Scope, and Methodology**

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### Objectives

The objectives of this audit 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.

### Scope

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

### Methodology

The audit methodology included reviewing internal controls and processes related to establishing, altering, charging, and expending student fees; reviewing account balances, budgeting, and expenditures for student fees; and performing data analysis.

Information collected and reviewed included the following:

- Interviews with selected higher education institutions' staff.

- Selected higher education institutions' policies and procedures related to the management of student fees.
- Total expenditure and revenue information for all student fees at the five selected higher education institutions.
- Account balance information for selected incidental and laboratory fees.
- Detailed expenditure information for selected student fees.
- Budgets related to selected student fees.

Procedures and tests conducted included the following:

- Interviewed key personnel to gain an understanding of the processes and controls related to the management of student fees.
- Analyzed budget information for selected student fees.
- Analyzed account balance information for selected incidental and laboratory fees.
- Examined transfers of funds from selected student fee accounts.
- Tested expenditures for selected student fees.
- Reviewed authorization of selected student fees.
- Reviewed and tested input controls, processing controls, and output controls for automated systems related to student fees.
- Reviewed access controls over the automated system(s) involved in the student fee process.

Criteria used included the following:

- Selected higher education institutions' requirements.
- Texas Education Code, Chapter 54.

### **Project Information**

Audit fieldwork was conducted from March 2008 through July 2008. We conducted this performance audit 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 following members of the State Auditor's staff performed the audit:

- Joe K. Fralin, MBA (Project Manager)
- Jenay Oliphant (Assistant Project Manager)
- Gregory Scott Adams, CPA, MPA, CGFM
- Scott Armstrong
- Michael O. Clayton, CPA, CISA, CFE
- Lynn Magee, MBA
- Shelby Cherian, MBA (Information Systems Audit Team)
- Gary Leach, CISA, CQA (Information Systems Audit Team)
- Dennis Ray Bushnell, CPA (Quality Control Reviewer)
- Verma Elliot, MBA, CIA, CGAP (Audit Manager)

## Fees Audited at Each Higher Education Institution

Table 6 summarizes each student fee that auditors tested at each higher education institution.

Table 6

Student Fees That Auditors Tested at Each Higher Education Institution			
Higher Education Institution	Laboratory Fees Tested	Incidental Fees Tested	Designated Fees Tested
Texas Tech University (TTU) (See Chapter 2)	Auditors were unable to test laboratory fees at TTU because TTU is not able to track laboratory fee revenue from initial deposit to expenditure of these funds.	<ul style="list-style-type: none"> <li>▪ Course Fee - Mass Communications.</li> <li>▪ Study Abroad Operations fee.</li> <li>▪ Spain Program fee.</li> <li>▪ TECHniques Center fee.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Student Services fee.</li> <li>▪ Recreational Sports fee.</li> <li>▪ Student Union fee.</li> </ul>
Sam Houston State University (SHSU) (See Chapter 3)	Auditors were unable to test laboratory fees at SHSU because SHSU is not able to track laboratory fee revenue from initial deposit to expenditure of these funds.	<ul style="list-style-type: none"> <li>▪ University Center fee.</li> <li>▪ Distance Learning fee.</li> <li>▪ Executive MBA Program fee.</li> <li>▪ Course fees.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Student Services fee.</li> <li>▪ Recreational Sports fee.</li> <li>▪ Student Center fee.</li> </ul>
The University of Houston (UofH) (See Chapter 4)	<ul style="list-style-type: none"> <li>▪ Pharmacy Lab fee.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Undergraduate Business Services fee.</li> <li>▪ College of Natural Sciences and Mathematics Thesis and Dissertation Binding fee.</li> <li>▪ Engineering Resource fee.</li> <li>▪ Physics Incidental fee.</li> <li>▪ Application fee.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Student Services fee.</li> <li>▪ Recreation and Wellness fee.</li> </ul>
The University of Texas at San Antonio (UTSA) (See Chapter 5)	<ul style="list-style-type: none"> <li>▪ Chemistry fee.</li> <li>▪ Physics and Astronomy fee.</li> <li>▪ Biology fee.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Energy fee.</li> <li>▪ College of Sciences (COS) Learning Resource fee.</li> <li>▪ Core Curriculum Learning Resource fee.</li> <li>▪ Instrument User's Fee - Biology.</li> </ul>	<ul style="list-style-type: none"> <li>▪ University Center fee.</li> <li>▪ Recreational Center fee.</li> <li>▪ Student Services fee.</li> </ul>
The University of North Texas (UNT) (See Chapter 6)	<ul style="list-style-type: none"> <li>▪ Merchandising and Hospitality Management Lab fee.</li> <li>▪ Biological Sciences Lab fee.</li> <li>▪ Engineering Technology Lab fee.</li> </ul>	<ul style="list-style-type: none"> <li>▪ College of Business Administration (COBA) Computing fee.</li> <li>▪ Math Assessment fee.</li> <li>▪ Biology Materials fee.</li> <li>▪ Music Basic Course fee.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Student Service fee.</li> <li>▪ Recreational Facility fee.</li> <li>▪ Student Union fee.</li> </ul>

## List of All Recommendations in This Audit Report

Table 7 summarizes all recommendations in this audit report.

Table 7

Summary of All Recommendations in This Audit Report <sup>a</sup>					
Recommendation	Higher Education Institutions				
	Texas Tech University (See Chapter 2)	Sam Houston State University (See Chapter 3)	The University of Houston (See Chapter 4)	The University of Texas at San Antonio (See Chapter 5)	The University of North Texas (See Chapter 6)
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.	✓	✓	✓	✓	✓
Spend student fee revenue 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.	✓	✓	✓	✓	✓
Continue to grant users of its information systems access levels that are appropriate for their job functions.				✓	
<sup>a</sup> ✓ indicates this recommendation was addressed to this higher education institution.					

## *Excerpts from Texas Education Code, Chapter 54*

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The student fees audited were subject to the requirements of several sections of Texas Education Code, Chapter 54. Auditors used the Texas Education Code, Chapter 54, as criteria to audit student fees. Excerpts of the code are below.

The three excerpts below apply to all higher education institutions, unless otherwise specified.

### Texas Education Code, Section 54.501. Laboratory Fees.

(a) An institution of higher education shall set and collect a laboratory fee in an amount sufficient to cover the general cost of laboratory materials and supplies used by a student. An institution other than a public junior college may charge a laboratory fee in an amount that is not less than \$2 nor more than \$30 for any one semester or summer term for a student in any one laboratory course, except that the amount of the laboratory fee may not exceed the cost of actual materials and supplies used by the student. A public junior college may charge a laboratory fee in an amount that does not exceed the lesser of \$24 per semester credit hour of laboratory course credit for which the student is enrolled or the cost of actual materials and supplies used by the student.

(b) Laboratory fees collected by an institution under this section shall be accounted for as educational and general funds.

### Texas Education Code, Section 54.503. Student Services Fees.

(a) For the purposes of this section:

(1) "Student services" means activities which are separate and apart from the regularly scheduled academic functions of the institution and directly involve or benefit students, including textbook rentals, recreational activities, health and hospital services, medical services, intramural and intercollegiate athletics, artists and lecture series, cultural entertainment series, debating and oratorical activities, student publications, student government, the student fee advisory committee, student transportation services other than services under Sections 54.504, 54.511, 54.512, and 54.513 of this code, and any other student activities and services specifically authorized and approved by the governing board of the institution of higher education. The term does not include services for which a fee is charged under another section of this code.

(2) "Compulsory fee" means a fee that is charged to all students enrolled at the institution.

(3) "Voluntary fee" means a fee that is charged only to those students who make use of the student service for which the fee is established.

(b) The governing board of an institution of higher education may charge and collect from students registered at the institution fees to cover the cost of student services. The fee or fees may be either voluntary or compulsory as determined by the governing board. The total of all compulsory student services fees collected from a student at an institution of higher education other than The University of Texas at Austin or a component institution of the University of Houston System for any one semester or summer session shall not exceed \$250. All compulsory student services fees charged and collected under this section by the governing board of an institution of higher education, other than a public junior college, shall be assessed in proportion to the number of semester credit hours for which a student registers. No portion of the compulsory fees collected may be expended for parking facilities or services, except as related to providing shuttle bus services.

(c) The provisions of this section do not affect the building use fees or other special fees authorized by the legislature for any institution for the purpose of financing revenue bond issues.

(d) All money collected as student services fees shall be reserved and accounted for in an account or accounts kept separate and apart from educational and general funds of the institution and shall be used only for the support of student services. All the money shall be placed in a depository bank or banks designated by the governing board and shall be secured as required by law. Each year the governing board shall approve for the institution a separate budget for student activities and services financed by fees authorized in this section. The budget shall show the fees to be assessed, the purpose or functions to be financed, the estimated income to be derived, and the proposed expenditures to be made. Copies of the budgets shall be filed annually with the coordinating board, the governor, the legislative budget board, and the state library.

(f) If the total compulsory fee charged under this section is more than \$150, the increase does not take effect unless the increase is approved by a majority vote of the students voting in an election held for that purpose or by a majority vote of the student government at the institution. In subsequent years, an election authorizing a fee increase must be held before the fee can be increased by more than 10 percent of the fee approved at the last student election.

(g) If a student registers at more than one institution of higher education within a college or university system under concurrent enrollment provisions of joint or cooperative programs between institutions, the student shall pay all compulsory student services fees to the institution designated as the home institution under the joint or cooperative program. The governing board of the college or university system may waive the payment of all compulsory student services fees at the other institution or institutions.

(h) Except for Subsection (g) of this section, this section does not apply to The University of Texas at Austin or a component institution of the University of Houston System.

Texas Education Code, Section 54.504. Incidental Fees.

(a) The governing board of an institution of higher education may fix the rate of incidental fees to be paid to an institution under its governance by students and prospective students and may make rules for the collection of the fees and for the distribution of the funds, such funds to be accounted for as other designated funds. 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. In fixing such rate, the governing board may consult with a student fee advisory committee which the governing board may establish if such student committee does not presently exist.

(b) The board shall publish in the general catalog of the university a description of the amount of each fee to be charged.

(c) In this section, "incidental fees" includes, without limitation, such fees as late registration fees, library fines, microfilming fees, thesis or doctoral manuscript reproduction or filing fees, bad check charges, application processing fees, and laboratory breakage charges, but does not include a fee for which a governing board makes a charge under the authority of any other provision of law.

The two excerpts below apply to Student Recreation fees and Student Union fees at Texas Tech University.

Texas Education Code, Section 54.509. Student Recreation Fee; Texas Tech University.

(a) If approved by student vote, the board of regents of the Texas Tech University System may charge each student enrolled at a component institution of the Texas Tech University System a recreation fee not to exceed \$100 per semester or \$50 per six-week summer term to be used to purchase equipment for and to operate and maintain the student recreation facilities and programs at the institution.

(b) The fee may not be increased by more than 10 percent from one academic year to the next unless the increase is approved by a majority of students voting on the issue in a general student election called for that purpose.

(c) The university shall collect the student recreation fee and shall deposit the money collected in an account known as the Student Recreation Account.

(d) The student recreation fee is not counted in determining the maximum student services fee which may be charged under Section 54.503.

Texas Education Code, Section 54.5241. Student Union Fees; Texas Tech University System.

(a) The board of regents of the Texas Tech University System may impose a fee in a fixed amount on each student enrolled in a component institution of the Texas Tech University System for the purpose of providing revenue for financing, operating, maintaining, improving, and equipping student union facilities or for acquiring or constructing additions to those facilities.

(b) The board of regents may change the amount of the fee imposed at an institution as necessary to provide sufficient funds for the student union but may not increase the amount of the fee by more than 10 percent unless the amount of the increase is approved by:

(1) a majority of the students of the institution voting in a general student election held for that purpose; or

(2) a majority vote of the legislative body of the student government of the institution.

(c) The board of regents may prorate the amount of the fee imposed at an institution based on the length of the semester or term for which a student enrolls.

(d) The fiscal officer of each institution shall collect the fees imposed under this section at the institution and shall credit the money received from the fees to an account known as the student union account. The money in the account may be used only for the purposes provided by Subsection (a) and shall be placed under the control of and subject to the order of the advisory board of the institution's student union. The advisory board shall annually submit a complete and itemized budget accompanied by a full and complete report of all activities conducted during the year and all expenditures made in connection with those activities. The board of regents shall make the changes in the budget as the board of regents considers necessary before approving the budget and shall impose the fees in an amount sufficient to meet the budgetary needs of the student union, subject to Subsection (b).

(e) The board of regents may pledge the fees imposed under this section to pay obligations issued for authorized purposes pursuant to the revenue financing system of the Texas Tech University System.

(f) Student union fees imposed under this section are in addition to any other fee the board of regents is authorized by law to impose and may not be considered in determining the maximum student services fee that may be imposed under Section 54.503(b).

The two excerpts below apply to Student Center fees and Recreational Sports fees for higher education institutions in the Texas State University System (including Sam Houston State University, one of the higher education institutions in the scope of this audit).

Texas Education Code, Section 54.523. Student Center Fees; Texas State University System.

(a) To the extent approved by the students under Subsection (b) of this section, the board of regents of the Texas State University System may charge each student enrolled in a university or educational center under its authority a student center fee not to exceed \$100 per semester or \$50 per summer term of six weeks or less to be used to construct, operate, maintain, improve, and program a student center at the university or educational center at which the student is enrolled.

(b) The decision to levy a student center fee, the amount of the initial fee, and an increase in the fee must be approved by a majority vote of those students participating in a general election called for that purpose; provided that this requirement shall not apply to the decision to levy a student center fee or the amount of the initial fee approved by the board prior to the effective date of this section.

(c) The chief fiscal officer of each university operating a student center, either on its central campus or at an educational center of the university, shall collect the student center fee and shall deposit the money received into an account known as the student center account.

(d) The university shall hold in reserve any fee revenue that exceeds the amount necessary to construct, operate, maintain, improve, and program the student center. The university may use the fee revenue held in reserve only for future expenses of constructing, operating, maintaining, improving, or programming the student center.

Texas Education Code, Section 54.538. Recreational Sports Fee; Texas State University System.

(a) If approved by student vote at a system institution, the Board of Regents, Texas State University System, may charge each student enrolled at such institution a recreational sports fee not to exceed \$100 per semester or summer session of 10 weeks or longer or \$50 per summer session of less than 10 weeks. The fee may be used to purchase equipment for and to construct, operate, and maintain recreational sports facilities and programs at the designated institution.

(b) The recreation fee authorized by this section may not be increased more than 10 percent from one academic year to the next unless the increase has been approved by a majority vote of those students at the affected institution participating in a general student election called for that purpose. The fee may not exceed the amounts provided by Subsection (a).

(c) Each system institution shall collect any student recreational sports fee imposed under this section and shall deposit the money collected in an account to be known as the student recreational sports account.

(d) A student recreational sports fee imposed under this section is not counted in determining the maximum student services fee which may be charged under Section 54.513 of this subchapter.

The two excerpts below apply to Student Services fees and Recreational Facility fees at the University of Houston.

Texas Education Code, Section 54.5061. Student Services Fees; The University of Houston System.

(a) In this section:

(1) "Student services" includes textbook rentals; recreational activities; health, hospital, and other medical services; group hospitalization; intramural and intercollegiate athletics; artists and lecture series and other cultural entertainment; debating and oratorical activities; student publications; student government; student fees advisory committees; student transportation services; and any other student activities and services specifically authorized and approved by the board; provided, however, that nothing herein shall affect the setting and collection of any other fee which may be charged under the specific authority of any other section of this code.

(2) "Compulsory fee" means a fee that is charged to all students enrolled at the component institution.

(3) "Voluntary fee" means a fee that is charged only to those students who make use of the student service for which the fee is established.

(b) Subject to Section 54.5062 of this code and Subsections (h) and (i) of this section, the Board of Regents of the University of Houston System may charge and collect from students registered at each component institution of the University of Houston System fees to cover the cost of student services that the board considers necessary or desirable in carrying out the educational functions of each university. The governing board of the system is not required to set uniform fees or rates for component institutions.

(c) The board may make fees for a particular student service voluntary or compulsory.

(d) Any compulsory fees for student services charged under this section shall be assessed in proportion to the number of semester credit hours for which a student registers unless the rate of such fee is specifically established by law or authority and approval of the board to be a minimum amount to be charged to each student for any semester or summer term.

- (e) Money collected as fees for student services shall be:
- (1) reserved and accounted for in an account kept separate from educational and general funds of the university;
  - (2) used only for the support of student services;
  - (3) used only after the compulsory fees to be included in the student services fees budget have been considered as provided in this subchapter; and
  - (4) placed in a depository bank designated by the board and secured as provided by law.

(f) Each year the board shall approve for each university a separate budget for student activities and services financed by fees authorized by this section. The budget shall show the fees to be assessed, the purpose for which the fees will be used or the functions to be financed, the estimated income to be derived, and the proposed expenditures to be made. Copies of the budget shall be filed annually with the coordinating board, the governor, the Legislative Budget Board, and the state library.

(h) If, in an academic year, the total compulsory fees charged under this section are more than 10 percent higher than the previous year's compulsory fees, the increase is not effective unless approved by a majority vote of the students voting in an election called for that purpose or by a majority vote of the duly elected student government.

(i) The total of all compulsory fees charged under this section to students for any semester or summer session may not exceed \$150, unless prior approval has been granted by a majority vote of the students voting in an election called for that purpose or by a majority vote of the duly elected student government.

Texas Education Code, Section 54.528. Recreational Facility Fee; The University of Houston.

(a) The board of regents of the University of Houston System may charge each student enrolled at the University of Houston a recreational and wellness facility fee to finance, construct, operate, maintain, or improve student wellness and recreational facilities at the university. The initial amount of the fee may not exceed \$75 for each semester of the regular term or for each summer session. The board may prorate the amount of the fee for a summer session.

(b) The fee may not be imposed unless the fee is approved by a majority vote of those students participating in a general student election called for that purpose. The fee may not be imposed in a semester or session before the first semester or session in which a wellness and recreational facility is available for use.

(c) The board may increase the amount of the fee, but may not increase the amount by more than 10 percent from one academic year to the next unless the increase is approved by a majority vote of those students voting in a general student election called for that purpose.

(d) The board shall deposit the revenue from the fee in an account known as the recreational and wellness facility account.

(e) The board may pledge revenue from the fee to pay obligations issued pursuant to the revenue financing system of the University of Houston System.

The two excerpts below apply to University Center fees and Recreational Facility fees at the University of Texas at San Antonio.

Texas Education Code, Section 54.532. Student Union Building Fees; The University of Texas at San Antonio.

(a) The board of regents of The University of Texas System may levy a student union fee of not less than \$20 or more than \$150 for each semester or summer session, assessed in proportion to the number of credit hours for which a student registers, for the sole purpose of financing, operating, maintaining, and improving a student union building for The University of Texas at San Antonio. This fee may be levied in addition to any other use or service fee.

(b) The fees collected under Subsection (a) of this section shall be deposited to an account known as The University of Texas at San Antonio University Center Fee Account and shall be placed under the control of and subject to the order of the university center advisory committee. The committee shall annually submit to the president of The University of Texas at San Antonio a complete and itemized budget to be accompanied by a full and complete report of all activities conducted during the past year and all expenditures made incident to those activities. The president shall submit the budget to the board of regents as part of the institutional budget. The board of regents shall make such changes in the budget as it deems necessary before approving the budget. The board shall then levy the fees, within the limits fixed in this section, in such amounts as will be sufficient to meet the budgetary needs of the student union building.

(c) The board may not increase the amount of the student union fee in any academic year unless the amount of the increase is approved by a majority of the students voting in an election held for that purpose and by a majority of the student government of the institution.

Texas Education Code, Section 54.543. Recreational Facility Fee; The University of Texas at San Antonio.

(a) The board of regents of The University of Texas System may charge each student enrolled at The University of Texas at San Antonio a recreational facility fee not to exceed:

- (1) \$150 for a term or semester of more than six weeks; or
- (2) \$75 for a term or semester of six weeks or less.

(a-1) The recreational facility fee may be used only to finance, construct, operate, maintain, or improve student recreational facilities at the university.

(b) The board of regents may pledge the fees charged under this section to pay obligations issued pursuant to the revenue financing system of The University of Texas System.

(c) The recreational facility fee may not be charged unless the charging of the fee is approved by a majority vote of those students participating in a general student election called for that purpose.

(d) If approved in accordance with this section, the board of regents shall collect the recreational facility fees and deposit the fees in an account known as the recreational facility account.

(g) The board may not increase the amount of the recreational facility fee in any academic year unless the amount of the increase is approved by a majority vote of the students participating in a general student election held for that purpose.

The two excerpts below apply to Student Recreational Facility fees and Student Union Building fees at the University of North Texas.

Texas Education Code, Section 54.5091. Student Recreational Facility Fee; University of North Texas.

(a) If approved by a majority vote of those students participating in a general election held at the university for that purpose, the board of regents of the University of North Texas may impose a recreational facility fee on each student enrolled in the university in an amount not to exceed \$75 per student for each semester of the regular term or 12-week summer session and not to exceed \$37.50 per student for each six-week or shorter term of the summer session. The fee may be used only for constructing, operating, maintaining, improving, and equipping a recreational facility or program at the university.

(b) Revenue from a fee imposed under this section shall be deposited to the credit of an account known as the "University of North Texas recreational facility fee account" under the control of the student fee advisory committee established under Section 54.5031.

(c) The student fee advisory committee annually shall submit to the board of regents a complete and itemized budget for the recreational facility with a complete report of all recreational facility activities conducted during the past year and all expenditures made in connection with those activities. The board may make changes in the budget that the board determines are necessary. After approving the budget, the board, in accordance with this section, may impose the recreational facility fees for that year in amounts sufficient to meet the budgetary needs of the recreational facility. If the budget approved by the board contains an expenditure for the construction of a facility, the board may contract for the construction of the facility.

(d) The board may not increase the amount of the recreational facility fee by more than 10 percent in any academic year unless the amount of the increase is approved by a majority of the students participating in a general election held at the university for that purpose.

Texas Education Code, Section 54.519. Student Union Fee; North Texas State University.

(a) The board of regents of North Texas State University may levy a regular, fixed student fee against each student enrolled in that institution, as may in their discretion be just and necessary for the purpose of operating, maintaining, improving, and equipping the student union and acquiring or constructing additions thereto; provided, however, that the student body must approve each increase of said fee in excess of \$3 per student for each fiscal year, at an election called for that purpose by the board. Notice of an election shall be given by publication of a substantial copy of the resolution or order of the board calling the election and showing the amount of the increased fee and the purpose for which it is to be used. The notice shall be published in The North Texas Daily or in any other student newspaper having general circulation among the student body for three consecutive days of the week immediately preceding the date set for the election. The board shall canvass the returns and declare the results of the election, and if a majority of the students voting in the election vote in favor of the increase, then the board may levy the fee in an amount not in excess of the amount authorized at the election.

(b) The activities of the student union financed in whole or in part by the student union fee shall be limited to those activities in which the entire student body is eligible to participate and in no event may any of the activities so financed be held outside of the territorial limits of the campus of the University of North Texas.

(c) The fiscal officer of the University of North Texas shall collect the fees provided for in Subsection (a) of this section and shall credit the money received from those fees to an account known as the student union fee account.

(d) The money thus collected and placed in the student union fee account shall be used for the purpose of operating and maintaining and improving the student union and shall be placed under the control of and subject to the order of the board of directors of the student union, which board of directors shall annually submit a complete and itemized budget to be accompanied by a full and complete report of all activities conducted during the past year and all expenditures made incident thereto. The board of regents shall make such changes in the budget as it deems necessary before approving it, and shall then levy the student fees under the provisions of Subsection (a) of this section in such amounts as will be sufficient to meet the budgetary needs of the student union, within the statutory limits fixed in this section.

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