

AUDIT REPORT

COLLECTING ENROLLMENT FEES AT THE BOARD OF REGENTS' INSTITUTIONS

A Report to the Legislative Post Audit Committee

LEGISLATIVE DIVISION OF POST AUDIT

State of Kansas

Topeka

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Through its audit work, the Division provides the Legislature with information for evaluating the work of State agencies. This information helps the Legislature decide what should be done to bring high-quality services to Kansans in the most effective and economical manner.

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LEGISLATIVE DIVISION OF POST AUDIT

Richard E. Brown, Legislative Post Auditor
Douglas J. Vogel, Deputy Legislative Post Auditor
Meredith C. Williams, Assistant Legislative Post Auditor

Suite 301, Mills Building
Topeka, Kansas 66612
(913) 296-3792

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AT THE BOARD OF REGENTS' INSTITUTIONS

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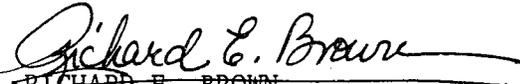
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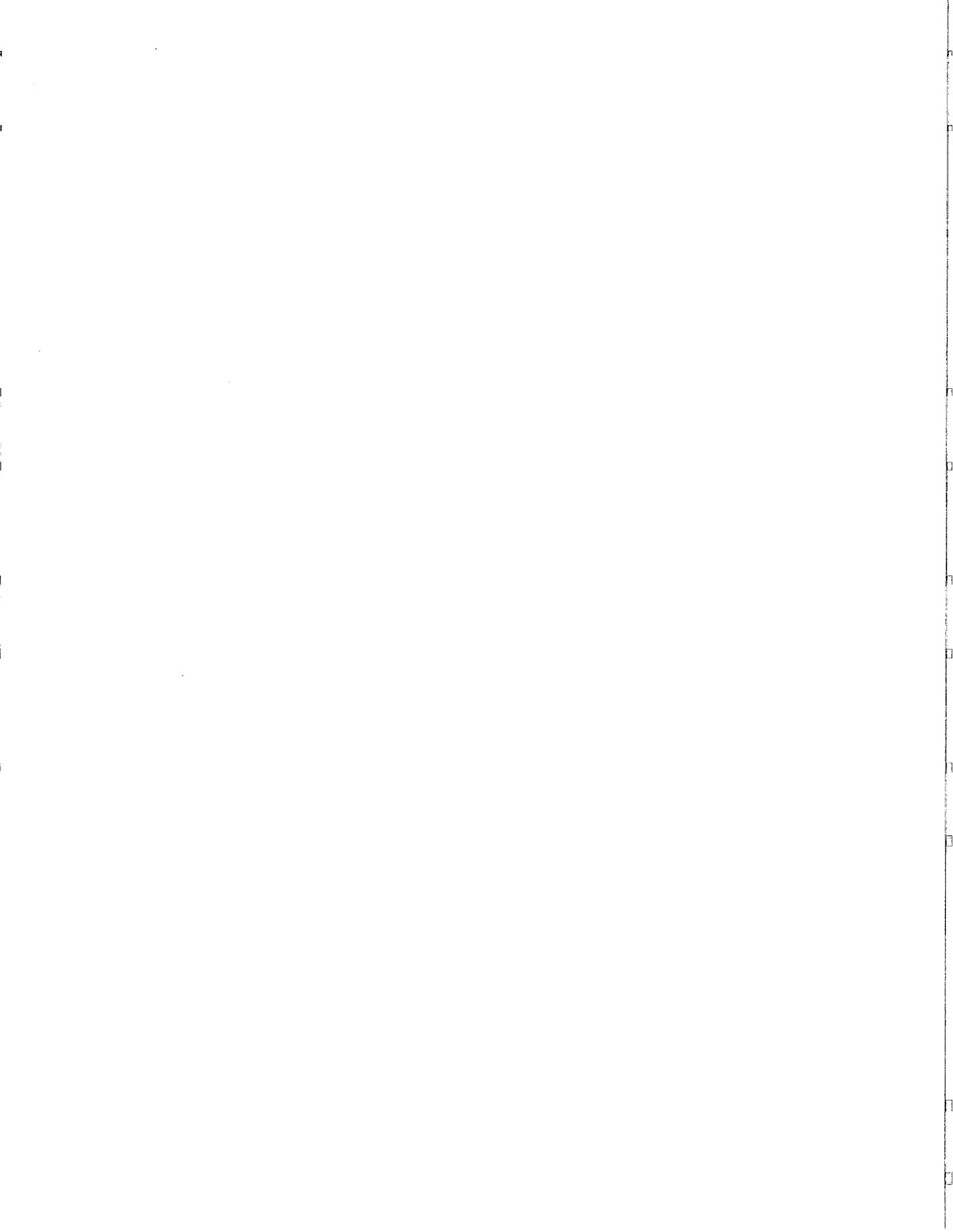
FOREWORD

At the direction of the Legislative Post Audit Committee, the Legislative Division of Post Audit conducted an audit of the procedures used by the Board of Regents' institutions to collect enrollment fees. The Committee also directed Legislative Post Audit to develop a uniform system of enrollment fee collection procedures for use at all Regents' institutions. The Committee became concerned about existing procedures when audits and surveys showed that several institutions' procedures were not in compliance with State statutes and that most institutions' procedures exposed large amounts of money to potential loss. This audit was requested when the Committee determined that the Board and the institutions were not taking steps to solve the problem uniformly.

A "Summary of Matters for Legislative Attention" follows this Foreword. It contains a summary of the audit's findings and conclusions, a list of the audit's recommendations, a summary of the agencies' responses to these findings and recommendations, and a statement of legislative actions recommended to the Legislative Post Audit Committee by the Legislative Division of Post Audit. The full text of the report follows the Summary.

We extend our thanks to the Board of Regents and its institutions for their help in answering questions and providing information. Special acknowledgement should also be given to the audit team supervisor, Terri Sculley; to her team members, Debbie Phillips and Robert Leake; and to all the auditors who monitored enrollment on site at the various institutions.


~~RICHARD E. BROWN~~
Legislative Post Auditor



Summary of Matters for Legislative Attention

Audit Findings and Conclusions

This program audit report represents another part of the Legislative Post Audit Committee's continued concern over problems in the enrollment fee collection procedures used at the Board of Regents' institutions. When regular biennial audits by the Legislative Division of Post Audit showed that two universities had problems in their fee collection procedures, including statutory violations and relatively minor losses of funds, the Committee decided to determine the extent to which problems existed at other Regents' institutions as well. The follow-up showed that other institutions also had problems in their procedures. As a result, the Committee directed Legislative Post Audit to develop and recommend a uniform system of enrollment fee collection procedures that would comply with existing statutes, meet requirements for effective internal controls, and reduce the potential for loss of money. The Committee also directed Legislative Post Audit to present this system to the Board of Regents for comment.

Enrollment at the Board of Regents' institutions is in many respects a sizable undertaking and operation. During the period observed by Legislative Post Audit in the Spring 1977 enrollment, 54,000 students paid more than \$13.5 million in tuition and other fees. The auditors who monitored enrollment found a number of problems, the greatest of which were related to the making of change. Most of the institutions have adopted policies that require large amounts of currency for change. During the Spring 1977 enrollment, the total amount of currency needed came to more than \$195,000. The need for this amount of money caused the following statutory violations:

- Two institutions established initial change funds above the \$5,000 maximum then established by law. The two were Wichita State University (\$15,000) and Kansas State University (\$16,000).

- When converting students' checks to currency in order to

replenish the change fund, the University of Kansas and Wichita State University converted more than \$5,000 in checks at a time, again violating the statutory limitation on the size of the change fund.

The 1977 Legislature amended the statutes to increase the maximum size of the institutions' change fund to \$20,000. Although this change may eliminate the kinds of statutory violations described above, it does not address other basic problems surrounding the handling of so much currency. At present, the Regents' institutions are in effect providing banking services by accepting checks for much larger amounts than a student's fees and giving back substantial amounts in change. At the University of Kansas, for example, a student received \$911 in currency from a check that was presented to pay for fees. Such practices expose sizable amounts of currency to loss or theft. At any one point during the Spring 1977 enrollment, for example, an average of \$18,693 in currency was exposed to loss at Wichita State University. For all Regents' institutions, the combined amount was \$60,531. Such exposure is unnecessary; enrollment can be carried on without it. Policies can be established within the current framework of enrollment to drastically reduce--and perhaps even eliminate--exposure of currency to loss. Other policies and practices can be established or strengthened to reduce the possibility that checks, credit card charges, and other forms of payment can be lost or stolen as well.

The auditors also found other statutory violations relating to change funds: three institutions did not have proper authorization for their change funds, and two had drawn their change funds from sources not provided for in the statutes. Other problems relating to depositing enrollment receipts, controlling enrollment money, and maintaining security over receipts and change funds were also noted at a number of the institutions.

In developing a recommendation for a uniform system of enrollment fee collection procedures, Legislative Post Audit attempted in large part to combine the best practices currently in use at the various Regents' institutions. At present, each institution has its own system, and each of these systems has its particular strong points. The University of Kansas Medical Center, for example, has nearly eliminated the need for change under its existing procedures. Nearly all of the recommended procedures are already in use at one or more of the Regents' institutions.

Audit Recommendations

The Board of Regents, acting where necessary with the Division of Accounts and Reports, should develop and put into effect a uniform set of procedures for the collection of enrollment fees at the Regents' institutions which will bring about compliance with existing statutes, meet requirements for internal controls, and reduce the potential for loss of enrollment fees and change fund money. These uniform procedures should address the following points:

Reducing or Eliminating Currency Handled at Enrollment

1. Personal checks should be accepted for the amount of fees only.
2. Two-party checks such as payroll or cashier's checks that require change should not be accepted.
3. The remainder of a student's scholarship, grant, or loan after fees have been paid should be provided by check, not currency.
4. Policies should be established regarding the handling of currency received in payment of fees. Alternatives include the following:
 - Eliminating currency entirely by requiring students to pay their fees by check, credit card, or some other means besides currency.
 - Accepting currency in payment of fees, but establishing means other than a change fund to make change (making change from currency received from other students or writing a check, for example).
 - Accepting currency in payment of fees and establishing a small change fund (perhaps \$100) as an initial means of providing change. The institutions can then use currency received from other students to provide additional amounts of change.

Complying with Statutes

1. All enrollment receipts should be deposited with the State Treasurer as set forth by the Director of Accounts and Reports. Under this requirement, the following must be done:

--Enrollment receipts must be deposited in the fee bank account as soon as possible so that all receipts collected can be transferred to the State Treasurer when the maximum balance allowed in the fee bank account is reached. To clarify the procedure, the Director of Accounts and Reports should specify the amount of money that can be kept on hand at the institution before a deposit into the fee bank account is necessary.

2. If change funds are maintained, care should be taken to ensure that they are properly authorized by the Director of Accounts and Reports, that they are within the maximum amount allowed by statute, and that they do not exceed this amount if they are replenished by cashing students' checks at the bank.

Establishing Other Effective Internal Control Procedures

1. The duties of the personnel involved in collecting fees should be clearly defined and separated. Under this requirement, the following must be done:

- The custodian of the change fund must be independent of the persons handling receipts.
- The custodian and cashiers must not have access to the fee collection accounting records.
- Cashiers must be responsible for receipts until those receipts are reconciled with the statements of charges, but the cashiers must not perform the reconciliation.
- Bank deposits must be made by someone other than the cashiers.

2. The handling of receipts should be adequately controlled. This control must include the following:

- Checks for payment of tuition and fees must immediately be endorsed for deposit only.
- Whenever possible, the duties of the enrollment cashiers must be separated by type of financial transaction--payment by check for the exact amount of fees, for example.
- Enrollment receipts must not be combined with receipts from other transactions.

--Enrollment fee cards must be cross-checked with the registration cards to help ensure that all fee cards and corresponding fee receipts are accounted for and reported.

3. State receipts should be adequately safeguarded. These safeguards include the following:

--Enrollment receipts and statements of charges must be reconciled and removed from exposure to the public at least twice a day.

--Security guards must be present during the collection of enrollment fees.

--Access to the area in which fees are being collected must be restricted to those persons actually involved in paying or collecting fees.

--Cash drawers and all collected receipts must be attended at all times.

--A security guard must always accompany the transfer of receipts from one location to another.

--Receipts must be transferred in a closed container.

--Deposits must be made to the agency fee account at least daily.

Recommendations for the Legislative Post
Audit Committee

1. The Legislative Post Audit Committee should obtain the views of the Board of Regents and the Division of Accounts and Reports on the proposed system of fee collection procedures. The Committee should determine the Board's intention regarding establishment of a uniform fee collection procedure. The Committee should also obtain information from the Board about the effect of possible pre-enrollment systems on such procedures.

2. If the Committee decides that the size of change funds should be reduced, it should introduce legislation to reduce the maximum size of imprest funds and change funds. The system outlined in the recommendations above would allow an institution to enroll students with a change fund of perhaps \$100.

Agency Response

Copies of the draft audit report were sent to the Board of Regents--and through them to the Regents' institutions--and to the Division of Accounts and Reports. This procedure is followed in the preparation of all audit reports and offers an opportunity for the agencies to point out any errors of fact, provide additional information pertaining to the audit's findings, and indicate their agreement or disagreement with the recommendations. Written responses to the draft report were received from Dr. John J. Conard, Executive Officer of the Board of Regents, and from James R. Cobler, Director of Accounts and Reports. After the report was revised and sent to the Legislative Post Audit Committee, an additional response was received from Walter Hiersteiner, Chairman of the Board of Regents. These responses, together with Legislative Post Audit's comments, will be found in Appendix A. The following is a summary of the points raised in their responses and in Legislative Post Audit's replies.

Reducing or Eliminating Currency Handled at Enrollment

Accepting checks for the amount of fees only. Neither the Board nor the Division of Accounts and Reports responded to the recommendation that personal checks be accepted only for the exact amount of fees or the recommendation that second-party checks such as payroll or cashier's checks not be accepted if they are for more than the amount of fees.

Making change for the remainder of scholarships, grants, loans, or other awards. The report recommends that the portion of a student's award in excess of fees be paid to the student by check, not in currency. The Board of Regents disagreed with the recommendation but did not elaborate on the reasons for its disagreement. Legislative Post Audit is not aware of any reasons for disagreement, especially when the greater part of such a system has already been established at the University of Kansas.

Refusing to accept currency at enrollment. The draft report sent to the Board of Regents and the Division of Accounts and Reports recommended that the Regents' institutions eliminate currency entirely at enrollment by requiring students to pay fees by check, credit card, or some other form of payment besides currency. Both the Board and the Division disagreed with that recommendation. Dr. Conard listed several reasons for the Board's disagreement: complaints from students and parents if such a system were adopted, possible litigation over such a practice, increased numbers of checks returned for lack of funds, additional inconvenience and expense for students who might prefer to deal only with currency, and possible collection

charges assessed by credit card companies if the volume of credit card charges began to rise. Mr. Cobler also disagreed with the recommendation on the grounds that business theory would show the problem to be too minor to warrant the change.

Legislative Post Audit had considered all these points before making its initial recommendation and has investigated a number of them in detail. It checked with officials at the Department of the Treasury, for example, to determine whether the institutions could legally refuse to accept currency, and it received a written reply stating that the institutions could do so. It conducted a survey of enrollment fee collection procedures at the peer institutions of the Regents' institutions and found that of the 62 percent of peer institutions that accept credit cards as a method of paying fees, only one institution is assessed a collection charge by the credit card company. Although a no-currency system may cause problems for some students the first time it is used, Legislative Post Audit believes that students could become as used to the policy as they are to all the other aspects of their enrollment procedure.

Legislative Post Audit thus remains convinced that its initial no-currency recommendation is workable and that from the points of view of minimizing the potential for loss and eliminating violations of statute by the Regents' institutions, it is the best policy. However, in the interest of presenting to the Legislative Post Audit Committee a recommended system that could be considered in its entirety instead of becoming mired in a single issue, Legislative Post Audit has modified the recommendation. The recommendation now contains three alternatives: the no-currency policy previously recommended, a policy of accepting currency but not establishing a change fund, and a policy of accepting currency and establishing a small change fund. If the Legislative Post Audit Committee decides that the objections to the first alternative are valid and important, it can turn to the two others.

Other Audit Recommendations

The remaining recommendations deal with establishing other effective internal control procedures and complying with existing statutes. Neither the Board nor the Division disagreed with any of these recommendations. Mr. Cobler stated that he agreed with them; Dr. Conard stated that they "should be implemented to the extent practicable and we are proceeding with such implementation." Legislative Post Audit would note, however, that "the extent practicable" gives no indication of which recommendations are to be implemented, and how soon.

One recommendation was added that was not in the draft report. It recommends that the Regents' institutions take steps to ensure that they are in compliance with statutory provisions regarding their change funds. The recommendation was not included in the draft report because the no-currency system recommended in that report would eliminate the need for a change fund at enrollment.

Other Comments by the Agencies

Pre-enrollment systems. The audit report recommends that because a pre-enrollment system could affect the way in which enrollment fees are collected, the Board of Regents should describe the possible effects of proposed pre-enrollment systems on the recommended fee collection procedures. Both the Board and the Division of Accounts and Reports appeared to interpret that recommendation as a call by Legislative Post Audit for payment of enrollment fees by mail or by some other means drastically different from the present procedures. This is not the recommendation's intent. The intent was to give the Committee further information in deciding whether a uniform system of fee collection procedures should be established at this time.

The Board's response provided a great deal of what the recommendation had called for. It indicated that the pre-enrollment systems under consideration at the Regents' institutions would still require basically the same procedures for collecting fees. The following is an excerpt from the response:

The collection of enrollment fees is related to but would be independent of the academic pre-enrollment systems. Any enrollment system must still provide for the collection of student fees in some manner with the same attendant problems we now experience. If we eliminate the present fee collection procedures and substitute a pre- or post-collection process including payment by mail, then we would have new or additional problems of setting up accounts receivable, collecting them, costs of mailing, billing, computerizing systems, etc.

Goals of the Legislature and the Board of Regents. The Board of Regents' response included the following closing comment:

We have approached this report with the assumption that the objectives of the Legislature and the Legislative Division of Post Audit are parallel with that of Regents institutions in that we are striving jointly to work within regulations and statutes in an effort to provide the most convenient

and maximum services to the students, parents and public at the most efficient cost possible. It is also our objective to carry out these responsibilities by using proper accounting, auditing and business management principles. In view of our excellent past record in providing safe, efficient collection and deposit of student fees, plus the additional precautions and improvements which are being planned, we look forward to future enrollment and fee-collection periods with great confidence.

Legislative Post Audit would note in reply to this comment that while all parties concerned with fee collection procedures may share common goals, they may also disagree about how best to meet those goals. The Legislative Post Audit Committee directed that this audit be conducted because the institutions admitted to Legislative Post Audit that they were knowingly violating the laws of the State to meet their goal of serving the students. In its formal motion calling for this audit (found on page 1 of the report), the Legislative Post Audit Committee made it clear that one of its goals was to provide legislative oversight by not condoning violations of law.

Matters Remaining for Legislative Attention

In its motion calling for this audit, the Legislative Post Audit Committee stated that the audit was to "make recommendations to this Committee and to the Board of Regents relative to adoption of a uniform fee collection procedure to be applied to all Regents' institutions." The Board of Regents has disagreed with certain aspects of the proposed procedure, especially to the no-currency recommendation. Legislative Post Audit has included other alternatives for the use of currency. The Board has also indicated its general agreement with many other aspects of the procedure, but it has not indicated clearly which of these aspects it would plan to put into effect on its own.

Legislative Post Audit is confident that it is presenting to the Committee a workable system of enrollment fee collection procedures that will help ensure compliance with existing statutes, meet requirements for effective internal controls, and reduce the potential for loss of enrollment fees and change fund money. The Board of Regents has indicated that it does not wish to establish a uniform system at all of its institutions. Under the State Constitution, the Board's responsibility is the ". . . control and supervision of public institutions of higher education." If the Legislative Post Audit Committee decides that a uniform system of enrollment fee collection procedures should be put into effect, it

should also determine from the Board how the Committee's decision will be carried out.

Legislative Post Audit is continuing its review and study of fee collection procedures. This review includes such areas as a fuller analysis of systems used in other states. If information is developed that is of significance to the decisions of the Committee, it will be reported to the Committee.

Recommended Committee Action

1. The Legislative Post Audit Committee should proceed with consideration of the recommended uniform system of enrollment fee collection procedures. This consideration should include obtaining the views of the Board of Regents regarding the establishment of a uniform system at all Regents' institutions.

2. If the Legislative Post Audit Committee recommends that a uniform system be adopted, it should direct the Board of Regents to report in writing to the Committee within 60 to 90 days on the progress made in establishing all aspects of the system at all Regents' institutions.

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CHAPTER I

INTRODUCTION

During the audits of Wichita State University and the University of Kansas for fiscal year 1975, the Legislative Division of Post Audit found problems in the procedures these two institutions use to collect fees during enrollment. Because the institutions made change for scholarship, loan, grant, and personal checks that were written for amounts higher than required fees, they needed large change funds during enrollment. The change funds required were larger than the \$5,000 maximum established by law, and the amount of money needed was such that effective control over it was difficult. In fiscal year 1975, \$1,800 was lost from the change fund at Wichita State University and \$600 from the change fund at the University of Kansas.

In response to these findings, the Legislative Post Audit Committee directed in October 1976 that a survey be conducted of the enrollment fee collection procedures at all institutions of the Board of Regents. The survey indicated that control over receipts and change fund money was weak and that there was a potential for loss at other institutions as well. It also indicated that several of the institutions exceeded statutory limitations on the size of their change funds. These findings brought about passage of the following Committee resolution at the Legislative Post Audit Committee meeting of December 7, 1976:

The Legislative Post Audit Committee has received the report of the Legislative Post Auditor relative to the enrollment fee collection procedures at the Regents' institutions. The Committee has noted the lack of uniformity among institutions and the violations of statute referred to in the report.

It is therefore resolved: that the Legislative Division of Post Audit attend the next enrollment activity of each of the seven Board of Regents' institutions and closely observe and monitor the handling of enrollment funds; that the Legislative Post Auditor make recommendations to this Committee and to the Board of Regents relative to adoption of a uniform fee collection procedure to be applied to all Regents' institutions; and that the Legislative Post Auditor offer the services of Legislative Post Audit and solicit the cooperation of the Division of Accounts and Reports in assisting the

Regents in establishing such a uniform fee collection procedure.

This audit report presents the findings and recommendations about fee collection procedures requested by the Legislative Post Audit Committee. In keeping with the Committee's concerns regarding the amount of money exposed to loss, violations of law under existing procedures, and development of a uniform procedure that all Regents' institutions can use, the report answers the following questions:

1. How much money is exposed to loss at each of the Regents' institutions? Can the amounts be reduced by adopting new policies and procedures for collecting fees?
2. What statutory violations have occurred under existing fee collection procedures? What changes are needed to stop such violations from recurring?
3. How adequate are the various controls and safeguards over enrollment fees and change fund money at each of the Regents' institutions? How can they be improved?
4. What uniform system of enrollment fee collection procedures can be recommended to comply with existing statutes, meet requirements for internal controls, and reduce the potential for loss of enrollment fees and change fund money?

As the Committee directed, Legislative Post Audit monitored the Spring 1977 enrollment fee collection procedures at each of the Regents' institutions--the University of Kansas (both the main campus and the Medical Center), Kansas State University, Wichita State University, Emporia State University, Fort Hays State University, Pittsburg State University, and Kansas Technical Institute. The auditors documented the practices used to provide financial controls and documented the activities of the people involved in handling enrollment receipts and making change. Through interviews and observations, the auditors also gathered information about the size, source, and use of the institutions' change funds.

The chapters that follow are organized as follows: Chapter II deals with the amounts exposed to loss at the Regents' institutions, Chapter III with issues relating to the compliance of procedures with existing statutes, and Chapter IV with the adequacy of controls in such areas as depositing enrollment receipts and maintaining security over fees and change funds. Legislative Post Audit's recommendations for a uniform system of enrollment fee collection procedures will be found in Chapter V.

CHAPTER II

MINIMIZING EXPOSURE OF FEES AND CHANGE FUNDS TO LOSS

The Legislative Post Audit Committee requested this audit in part because of concern that unnecessarily large sums of money are being exposed to loss during enrollment. One important aspect of this audit was thus to determine how much of a potential for loss exists at each of the Regents' institutions. In part, the effectiveness of enrollment fee collection procedures can be judged by how well they reduce the potential for loss or theft.

The basic procedures for collecting and depositing enrollment fees are similar at all the Regents' institutions. They can be summarized as follows:

1. The student submits a statement of charges (called a fee card) to the cashier and pays the required amount.
2. If the payment submitted by the student is more than the amount of fees, the cashier makes change. Change is needed when scholarship, loan, grant, or personal checks are for more than the required fees, or when payment in currency is for more than the amount due.
3. At some later time--usually the same day--the statements of charges are reconciled with the amount in the cashier's receipt box.
4. After the amounts have been reconciled, the receipts are removed from exposure to the public and deposited into an authorized bank account.

Legislative Post Audit observed and monitored these procedures during 204 hours of enrollment at the Regents' institutions. During this period, approximately 54,000 students enrolled and paid more than \$13.5 million in tuition and other fees, an average of nearly \$250 a student. Table II-1 on the next page shows the number of students, the total amounts received, and the average payment per student at each institution.

Table II-1
 Enrollment Headcount and Receipts
 Observed by Legislative Post Audit
 Board of Regents' Institutions
 Spring 1977 Enrollment

<u>Institution</u>	Enrollment Headcount During Per- iod Observed	Fee Payments	Average Payment
Emporia State University	3,084	\$ 749,717	\$ 243
Fort Hays State University	3,947	849,894	215
Pittsburg State University	3,205	585,120	183
Kansas State University	14,376	4,095,128	285
Kansas Technical Institute	193	34,589	179
University of Kansas	18,114	5,522,395	305
University of Kansas Medical Center	770	148,955	193
Wichita State University	<u>10,469</u>	<u>1,524,219</u>	<u>146</u>
Total and Average	<u>54,158</u>	<u>\$ 13,510,017</u>	\$ 249

Developed by the Legislative Division of Post Audit from data obtained at Spring 1977 Enrollment.

Amount Exposed to Loss

Of the total amount of \$13.5 million received in tuition and other fees, approximately \$13.4 million was exposed to loss during the period observed. The amount exposed to loss consisted of credit card charges, personal checks, award checks (for scholarships, grants, and loans), currency received in payment of fees, and currency used to make change. This total amount exposed to loss is not an accurate reflection of the potential for loss, however, because it does not take into account the amount of time the money was exposed to loss. To reduce the potential for loss, an institution can reconcile the statements of charges and the amounts collected periodically and can then remove the amount from direct exposure to the public.

To provide a more accurate picture of what is actually exposed to loss, Legislative Post Audit calculated the average amount exposed. This method takes into account the reconciliations made by each institution and compensates for the fact that more receipts are exposed to loss just before a reconciliation than just after it. The average amount exposed to loss represents one-half the total amount

of checks, currency, and charges collected and on hand between reconciliations plus the amount of the change fund money. Of the total amount of \$13.4 million exposed to loss, the average amount exposed to loss was slightly more than \$1 million, or about 7.8 percent of the total. Table II-2 shows the total and average at each of the Regents' institutions. The average amounts ranged from \$8,747 at Kansas Technical Institute to \$378,219 at Kansas State University.

Table II-2
Total and Average Enrollment Moneys Exposed to Loss
Board of Regents' Institutions
Spring 1977 Enrollment

<u>Institution</u>	<u>Total Enrollment Moneys Exposed to Loss</u>	<u>Average Enrollment Moneys Exposed to Loss</u>
Emporia State University	\$ 1,032,006	\$ 105,901
Fort Hays State University	853,244	149,922
Pittsburg State University	588,120	51,744
Kansas State University	3,710,186	378,219
Kansas Technical Institute	34,689	8,747
University of Kansas	5,526,295	258,951
University of Kansas Medical Center	149,055	12,513
Wichita State University	<u>1,481,263</u>	<u>73,172</u>
Total	<u>\$13,374,858(a)</u>	<u>\$ 1,039,169</u>

(a) Does not include payments or change made in non-negotiable form such as vouchers or cards authorizing cash payments.

Developed by Legislative Post Audit from data obtained at Spring 1977 enrollments.

The amounts above include many different kinds of money-- currency, checks of various kinds, and credit card charges. If checks or credit card charges are lost or stolen, the institution could incur considerable expense in time and money because it might have to determine which students paid by check or charge card and contact those students to stop the first payment and make another. The amount of currency exposed to loss is even more important, because currency is the least likely to be recovered if lost or stolen. To determine the amount of currency exposed to loss, Legislative Post Audit determined an average on a basis similar to the one described above. In this

case, the average amount of currency is one-half the amount of currency deposited after reconciliations plus the amount of currency in the institution's change fund. The average amount of currency exposed to loss at any one time for all Regents' institutions was \$60,531. Table II-3 shows the average amounts at each institution. The averages ranged from \$383 at the University of Kansas Medical Center to \$18,693 at Wichita State University.

Table II-3
Average Amount of Currency Exposed to Loss
Board of Regents' Institutions
Spring 1977 Enrollment

<u>Institution</u>	<u>Average Amount of Currency Exposed to Loss</u>
Emporia State University	\$ 4,131
Fort Hays State University	3,838
Pittsburg State University	5,808
Kansas State University	13,062
Kansas Technical Institute	851
University of Kansas	13,765
University of Kansas Medical Center	383
Wichita State University	<u>18,693</u>
Total	<u>\$ 60,531</u>

Developed by Legislative Post Audit from data obtained at Spring 1977 enrollments.

Methods for Reducing the Amount of Fees
and Change Fund Money Exposed to Loss

It should be stressed that determining the amounts potentially exposed to loss is not the same as determining the likelihood that money can be lost or stolen. The particular controls and precautions used by the Regents' institutions to prevent loss or theft will be discussed later in this report. However, no system of controls and precautions can totally eliminate the potential for loss. In view of this fact, one effective way to reduce the potential for loss is to reduce the amount of money exposed to loss--particularly the amount

of currency. The figures above show that the Regents' institutions do have large amounts exposed to loss and that the possibility of reducing these amounts should be addressed.

Legislative Post Audit's observation and analysis of enrollment fee collection procedures showed that two procedures most directly affect the amount exposed to loss:

1. If an institution frequently reconciles the fees it receives with the amounts shown on the statements of charges and then removes the fees from exposure to the public, it decreases the potential for loss.
2. If an institution adopts policies that reduce or eliminate the need to make change in currency during enrollment, it reduces or eliminates the potential for loss of currency.

Conducting More Frequent Reconciliations

The procedure that most significantly affected the average amount of currency, checks, and charges exposed to loss was the number of reconciliations performed during the enrollment period. The Regents' institutions do not have a uniform policy on the number of reconciliations to be conducted, and some do a better job in this regard than others. Wichita State University, for example, conducts reconciliations continuously throughout the enrollment period. When one cashier's receipts and statements of charges are reconciled, those persons handling the reconciliations move on to the next cashier, repeating the entire cycle again as soon as all cashiers' receipts and statements are reconciled. The University of Kansas follows the same procedure for cashiers who accept checks only. On the other hand, Kansas Technical Institute, Pittsburg State University, Emporia State University, and Fort Hays State University reconcile at least part of their receipts and statements only once a day.

A policy of continuous reconciliations could be more of a problem than a help at Kansas Technical Institute and the three smaller universities, because they have fewer cashiers and would too quickly repeat reconciliations for each cashier. However, if all Regents' institutions reconciled all receipts and statements at least twice a day, the average amount exposed to loss would be reduced by \$120,583, or 12 percent of the current amount. In addition, more frequent reconciliations would allow for earlier detection of errors or losses. If errors are detected early, there is a greater possibility of recovering the amount or correcting inaccurate balances.

Reducing or Eliminating Currency Handled During Enrollment

At present, considerable currency is handled at enrollment, mainly because most institutions give change for checks written for more than the amount of fees. These checks include payroll checks, personal checks, and checks for scholarships, grants, and awards, and other checks. Table II-4 shows the total amount of currency given out in change at each institution. In all, the Regents' institutions gave out \$195,784 in change. The total amount at each institution ranged from \$58 at the University of Kansas Medical Center to \$66,708 at the University of Kansas and \$67,023 at Wichita State University.

Table II-4
Change Made for Enrolling Students
Board of Regents' Institutions
Spring 1977 Enrollment

<u>Institution</u>	<u>Amount of Change Made</u>
Emporia State University	\$ 7,140
Fort Hays State University	18,720
Pittsburg State University	9,342
Kansas State University	26,306
Kansas Technical Institute	487
University of Kansas	66,708
University of Kansas Medical Center	58
Wichita State University	<u>67,023</u>
Total	<u>\$195,784</u>

Developed by Legislative Post Audit from data obtained at Spring 1977 enrollments.

Legislative Post Audit believes that the exposure of this extremely large amount of currency to loss is unnecessary. The need for such a large amount of change lies in the policies most institutions have adopted for cashing checks at enrollment. These policies can be summarized as follows:

1. Most Regents' institutions accept personal checks written in excess of fees. Emporia State University, Fort Hays State University, Pittsburg State University, Wichita State University, and Kansas Technical Institute neither

require nor encourage students to write checks for the exact amount of fees. The University of Kansas and Kansas State University encourage students to write checks for the exact amount of fees but do not require that they do so. Only the University of Kansas Medical Center will not accept personal checks written for more than the amount of fees.

2. Most Regents' institutions will accept payroll and other checks in excess of fees. At the University of Kansas, one student received \$911 in change from paying fees with a payroll check.
3. Most Regents' institutions will accept checks for scholarships, grants, and awards although those checks may be for considerably more than the amount of fees. Only the University of Kansas Medical Center does not cash such checks during enrollment. The Medical Center provides a refund check on a limited basis one or two days after enrollment is completed.

The check-cashing policies followed by most of the Regents' institutions can be changed as follows so that the need for currency to cash checks is eliminated:

1. Students should be required to write personal checks for the exact amount of fees.
2. Cashing of two-party checks such as payroll and cashier's checks for more than the amount of fees should be discontinued.
3. Change for students' scholarship, grant, or loan checks should be provided by dividing the amount of the award and issuing two checks--one for the exact (or, if need be, the appropriate) amount of fees, the second for the remainder of the award. If change is needed at enrollment for the first check, it can be provided in the form of an additional check written by the institution on its imprest fund.

Several of the Regents' institutions already use a two-check system for awards. The University of Kansas, for example, converted to the system for the Spring 1977 enrollment. During the Fall 1976 enrollment, the University had issued a total of 3,760 award checks from federal grant and loan programs. Change from these checks amounted to approximately \$170 per check, or a total of \$639,200.

In the Spring 1977 enrollment, the University issued two checks to each student--one averaging \$300 for payment of fees, and one for the remainder of the amount. In all, 6,240 checks were issued. During the Spring enrollment, normal in-State resident fees were \$291.90. Thus, an average of \$8.10 in change was needed for each check--a total of \$25,272. This amount is only four percent of the change needed the previous semester for award checks. If the University were to write the fee checks for the exact amount of fees, the need for change would be further reduced.

The steps outlined above will reduce drastically the amount of currency needed for change at enrollment and will thus reduce the exposure to loss. If these changes are made, the only currency remaining at enrollment will be receipts from students who pay their fees in currency. The Board of Regents would appear to have the following options with regard to controlling this remaining currency:

1. Eliminating currency completely by requiring students to pay their fees by check, credit card, or some other means besides currency.
2. Allowing students to pay their fees in currency, but not establishing a change fund to begin enrollment. If change needs to be made, the institutions can use the currency already received from other students, or if necessary, the institutions can write checks for the amounts from their imprest funds.
3. Allowing students to pay their fees in currency and establishing a small change fund--perhaps \$100--to provide change for the beginning of enrollment. The institutions can then use currency received from other students to provide additional amounts of change.

Conclusion

1. The Board of Regents can reduce or eliminate the possibility of loss of currency during enrollment at its institutions by adopting the following policies:
 - a. Requiring that personal checks be written for the exact amounts of fees and refusing to make change for payroll or other checks.
 - b. Providing a means for giving students the remainder of their scholarship, grant, or loan money by check rather than in currency.

c. Adopting one of the following alternatives regarding payment of fees in currency:

--Eliminating currency entirely by requiring students to pay their fees by check, credit card, or some other means besides currency.

--Accepting currency in payment of fees, but establishing means other than a change fund to make change (making change from currency received from other students or writing a check, for example).

--Accepting currency in payment of fees and establishing a small change fund (perhaps \$100) as an initial means of providing change.

2. The Board of Regents can reduce the possibility of loss of checks, credit card charges, and other forms of payment of enrollment fees at its institutions by requiring all institutions to reconcile receipts with statements of charges and remove them from exposure to the public at least twice a day.

Specific recommendations on these points will be found in the recommended system for enrollment fee collection procedures on pages 23-26.



CHAPTER III

COMPLIANCE OF ENROLLMENT FEE COLLECTION PROCEDURES WITH THE STATUTES

Chapter II dealt with one of the main legislative concerns regarding enrollment fee collection procedures--concern that unnecessarily large sums of money are exposed to loss. This chapter deals with another of these legislative concerns--that the Regents' institutions may be violating the statutes governing the size and nature of their change funds. This chapter examines the statutory violations that occurred during the Spring 1977 enrollments.

The Change Fund: A Brief Explanation

A few points about a change fund must be clarified before the issue of statutory violations can be addressed. For the sake of illustration, assume that an institution establishes a change fund of \$1,000. The fund is the amount of currency with which the institution begins its enrollment and is not part of the enrollment fees collected. Assume again that the first ten students to register all have fees of \$200, which they pay with a \$300 check. Each student receives \$100 in change from the change fund. After these transactions have been made, the institution has paid out \$1,000 in change, exhausting the currency in the change fund. It has not, however, used up the change fund, because it has taken in checks totaling \$3,000, which is \$1,000 more than the \$2,000 in fees the students have paid to the institution. The \$1,000 of the original change fund is now contained in the checks. To make additional change, the institution must deposit the checks, crediting the fee account with \$2,000 in fees and returning to enrollment with \$1,000 in currency.

This brief example points out the following two facts that must be kept in mind about change funds:

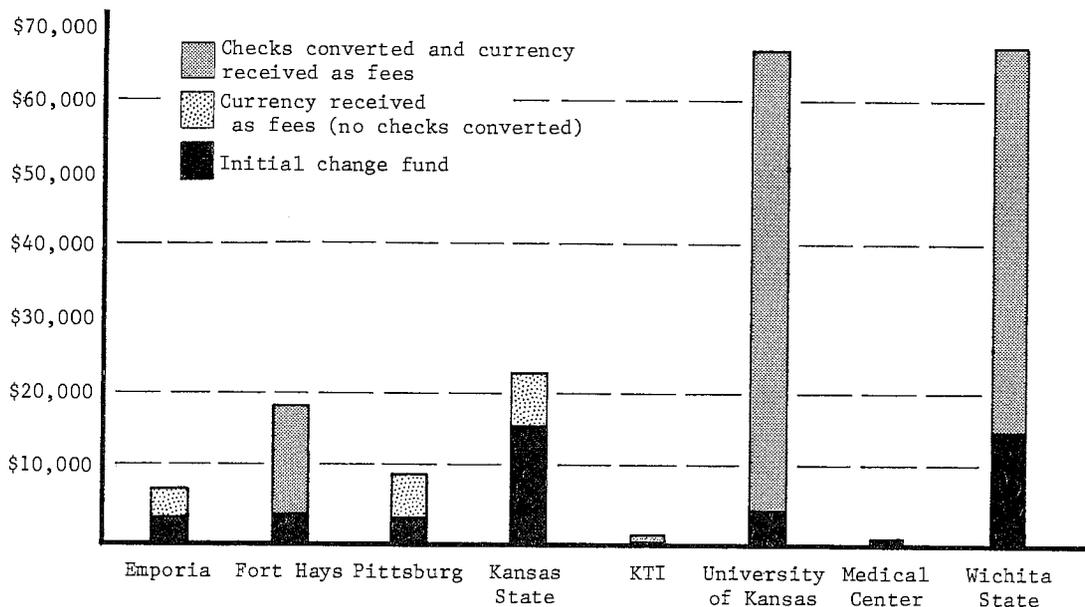
1. A change fund theoretically never disappears even if the currency in the fund is exhausted. The institution will always have the amount of the change fund in its fee receipts--in checks or in currency of different denomination. If an institution begins enrollment with \$1,000

of its own money for change, at the close of enrollment it should have on hand the total of the fees it has collected plus the \$1,000 with which it began.

2. Because the change fund theoretically never disappears, but simply changes form into currency of different denomination or portions of checks written for more than the amount of fees, the size of the change fund has little relationship to the amount of change that can be made during enrollment. Limiting a change fund to \$1,000 is not the same as limiting the amount of change that can be made to \$1,000, because an institution can constantly replenish the currency in the change fund.

The amount of change made at most of the Regents' institutions illustrates these points. In Chapter II, it was pointed out that the total amount of change made during enrollment ranged from \$58 at the University of Kansas Medical Center to \$67,023 at Wichita State University. Figure III-1 shows the sources of this currency for change. The process can be outlined as follows:

Figure III-1
Sources of Currency for Change
Board of Regents' Institutions
Spring Semester 1977



Developed by Legislative Post Audit from data obtained at Spring 1977 enrollments.

1. All Regents' institutions begin enrollment with a change fund. The amount of the change fund ranged from \$100 at the University of Kansas Medical Center to \$15,000 at Wichita State University and \$16,000 at Kansas State University.
2. At all institutions except the Medical Center, the amount of change made was more than the currency initially available in the change fund. Additional currency became available, however, when students paid their fees in currency. For example, Emporia State University used \$4,140 of fees received in currency to make change, and Kansas State University used \$10,306.
3. Three institutions--Fort Hays State University, the University of Kansas, and Wichita State University--found that the amount of currency initially in the change fund and the amount received during enrollment was insufficient for making change. These three institutions converted students' checks to currency at the bank and used it to make change. The amount converted from checks to currency was \$6,205 at Fort Hays, \$39,999 at Wichita State, and \$56,836 at the University of Kansas.

Although the amount of money given out as change could possibly be justified in terms of the mechanics of how a change fund works, it is not clear whether the Legislature intended that the Regents' institutions follow these practices when it set limitations on the size of their change funds. The violations described below, however, are based on the statutes rather than on an analysis of legislative intent behind those statutes. The violations fall into three areas: size of change funds, both at the start of and during enrollment; authorization of change funds; and sources of the change funds.

Size of Change Funds

At the time of the Spring 1977 enrollment, K.S.A. 1976 Supp. 75-3078 limited the size of change funds at the Regents' institutions to \$5,000. The 1977 Legislature increased that limit to \$20,000. Legislative Post Audit analyzed the Spring 1977 enrollment procedures in light of the \$5,000 limitation imposed at the time.

Legislative Post Audit found that for the Spring 1977 enrollment, two institutions established change funds larger than \$5,000--Wichita State University (\$15,000) and Kansas State University (\$16,000). The size of these change funds was in violation of K.S.A. 1976 Supp.

75-3078. These findings regarding statutory violations are similar to the findings of Legislative Post Audit's initial survey of change funds for the previous semester. This survey, conducted at the request of the Legislative Post Audit Committee in November 1976, showed that the same two institutions, together with Fort Hays State University and the University of Kansas, had change funds in excess of the \$5,000 limitation. However, the total amount of money in the change funds of all Regents' institutions for Spring 1977 was considerably lower than the total amount from the previous semester. Legislative Post Audit's announced plans to visit enrollment might have contributed to this decline. Table III-1, which shows the initial size of the change fund for each institution during the two enrollment periods, shows that the total had dropped from \$107,100 in Fall 1976 to \$44,450 in Spring 1977.

Table III-1
Initial Size of Change Funds
Board of Regents' Institutions
Fall 1976 and Spring 1977

<u>Institution</u>	<u>Amount of Initial Change Fund</u>	
	<u>Fall 1976</u>	<u>Spring 1977</u>
Emporia State University	\$ 5,000	\$ 3,000
Fort Hays State University	10,000	3,350
Pittsburg State University	3,000	3,000
Kansas State University	8,000	16,000
Kansas Technical Institute	1,000	100
University of Kansas	60,000	3,900
University of Kansas Medical Center	100	100
Wichita State University	20,000	15,000
Total	<u>\$ 107,100</u>	<u>\$ 44,450</u>

Developed by Legislative Post Audit from data obtained at Spring 1977 enrollments and from a survey of Regents' institutions, November 1976.

Under the increased size of change funds authorized by the 1977 Legislature, the change funds can again be expected to grow. According to the Division of Accounts and Reports, as of October 12, 1977, six institutions have requested increases in their change funds. The institutions and the total amount of the change fund requested are as follows:

Wichita State University	\$20,000
Fort Hays State University	\$17,350

University of Kansas	\$15,000
Kansas State University	\$12,000
Emporia State University	\$10,000
University of Kansas Medical Center	\$ 1,025

Increase in Change Fund Size During Enrollment

As the discussion at the beginning of this chapter pointed out, the size of the change fund theoretically remains constant even though the actual currency in the change fund may shrink to nothing. To replenish the change fund, an institution in effect "finds" the amount of the change fund in the excess amount paid in by students and returns it to the fund. At several institutions, this process has involved converting checks into currency. This practice appears to have some legal support, but not if the amount of money converted to cash at any one time exceeds the statutory limitation on the size of the change fund. The act of converting \$10,000, for example, has the effect of establishing a larger change fund than the law allowed in the Spring of 1977.

Legislative Post Audit found several instances in which the University of Kansas and Wichita State University converted more than \$5,000 of students' checks into currency and placed the money into the change fund. At the University of Kansas, there were five such conversions, ranging in size from \$7,500 to \$14,800. At Wichita State University, there were four such conversions, ranging in size from \$5,846 to \$9,021. Such conversions over \$5,000 were in violation of K.S.A. 1976 Supp. 75-3078. Conversions of less than \$5,000 would be in violation as well if the institution had enough currency in the change fund at the time of conversion to make the total amount more than \$5,000.

Authorization and Source of Change Funds

K.S.A. 1976 Supp. 75-3078, both in its original form and as amended by the 1977 Legislature, requires the approval of the Director of Accounts and Reports before an institution can establish a change fund. As part of the approval, the Director of Accounts and Reports designates that the source of the change fund will be the institution's imprest fund.

Three institutions--Emporia State University, Kansas State University, and Wichita State University--did not receive proper authorization for the establishment of their change funds. The circumstances at each of the institutions were as follows:

1. Emporia State University established a change fund from the imprest fund, the proper source under the law, but failed to obtain authorization from the Director of Accounts and Reports before using it. Emporia has since received proper authorization.
2. Kansas State University neither received authorization from the Director of Accounts and Reports nor drew its change fund from the imprest fund. The University used a \$16,000 temporary change fund obtained from Agency Trust Funds. There is no statutory authority for using such funds as change. The University corrected both problems by the start of enrollment for Fall 1977.
3. Wichita State University neither received authorization from the Director of Accounts and Reports nor drew its change fund from the imprest fund. The University used a \$15,000 temporary change fund borrowed from the University Endowment Association. There is no statutory provision for the establishment of such a temporary change fund. The use of the temporary change fund was not only unauthorized, but it might have subjected the University to liability for any losses that occurred. Wichita State stopped using the temporary change fund with the Fall 1977 enrollment, but it did not obtain proper authorization for its new change fund until after that enrollment was over.

Conclusion

During the Spring 1977 enrollment, there were a number of statutory violations regarding the size, authorization, and source of change funds at the Regents' institutions. Many of these violations occurred because of the need for large amounts of change at most of the Regents' institutions. Legislative Post Audit's recommended procedures for collecting enrollment fees would either substantially reduce the need for change funds at enrollment or eliminate the need for them entirely. If change funds were eliminated, statutory violations would of course be eliminated as well. If the need for change funds were reduced rather than eliminated, the possibility would still exist that violations could occur, but they would be less likely to occur than at present.

Legislative Post Audit's recommended procedures will be found on pages 23-26.

CHAPTER IV

PROBLEMS IN EXISTING PROCEDURES FOR DEPOSITING AND CONTROLLING ENROLLMENT MONEY

The previous two chapters have shown that many of the Regents' institutions can make improvements in reducing the amount of money exposed to loss during enrollment and in complying with the statutes that govern certain aspects of their enrollment procedures. In addition, Legislative Post Audit found that some of the institutions could improve certain procedures in depositing enrollment receipts, assigning duties during enrollment, handling enrollment money, and establishing effective security over receipts and change funds. This chapter describes problems encountered in those areas.

Depositing Enrollment Receipts

Legislative Post Audit found that several Regents' institutions were holding some of their receipts for several days before depositing them in their agency fee accounts. This practice exposes receipts to loss and weakens the financial controls over them. The specific instances were as follows:

1. At Kansas Technical Institute, checks amounting to \$1,553 were not deposited until approximately one week after they were received. The delay was to allow students to deposit sufficient funds to cover their checks.
2. At Emporia State University, if a student's fees were paid partly by the student and partly by some other sponsor, the student's portion of the payment was held until the payment due from the sponsor could be determined. This determination generally took one or two days. Also, receipts collected on Saturday at Emporia State were kept at the institution and deposited with Monday's receipts.
3. At Kansas State University, if a student's fees were paid partly by the student and partly by some other sponsor, the student's portion of the payment was held until the sponsor's payment was received. The payment was deposited in a local university account.

4. At the University of Kansas Medical Center, a portion of the enrollment receipts was held in the safe in the business office for several days.

Controlling Enrollment Money

To ensure that all enrollment fees were properly accounted for and deposited, each institution developed its own procedures providing for independent checks on those who handled money and recorded transactions. The procedures developed by each institution were based on internal control principles of job segregation, accounting for funds, and providing security for money during and after transactions.

Segregating Job Duties

Effective internal control procedures require that job duties be clearly defined and that persons responsible for collecting or handling money should not be responsible for performing reconciliations or recording the amount collected. These procedures provide a degree of control over loss of money due to theft, negligence, or inaccurate record-keeping. Errors or losses can be detected sooner, and adjustments or other corrective action can follow more quickly. Legislative Post Audit found the following problems relating to segregation of job duties:

1. Emporia State University did not clearly segregate the duties of cashiers from the duties of custodians of the change fund. All other institutions provided effective segregation of these duties.
2. Because fee collections at Kansas Technical Institute were handled by only one person, the institution did not clearly segregate accounting duties from the duties of cashiers and custodians of change funds. All other institutions provided effective segregation of these duties.
3. Except for the University of Kansas (both the main campus and Medical Center) and Wichita State University, the institutions allowed cashiers to reconcile their own receipts to the statements of charges.

Handling Receipts and Change Fund Money

Internal control procedures in these areas are designed to reduce the negotiability of checks, to prevent money from being lost through errors or negligence resulting from transactions between cashiers, to account for receipts through frequent reconciliations with statements of charges, and to segregate enrollment money from money not related to enrollment. Many of the institutions have developed effective procedures in this area. For example, several institutions developed procedures for cross-checking student registration cards with statements of charges to ensure that all fees had been collected and deposited for all registered students. Several institutions can improve their procedures in the handling of enrollment money, however. Specific improvements needed are as follows:

1. Only two institutions--Pittsburg State University and Kansas Technical Institute--immediately endorsed checks for deposit only. Some of the other institutions endorsed checks just before deposit, and others endorsed them as time permitted during enrollment. Without immediate endorsement, the possibility for loss is increased.
2. The auditors observed an instance in which Emporia State University combined enrollment receipts with regular business office transactions, making it harder to account for enrollment money.
3. The University of Kansas Medical Center and Emporia State University did not check student registration cards with statements of charges at enrollment to ensure that all students who registered had also paid their fees.

Maintaining Security Over Receipts and Change Funds

Effective controls in the area of security ensure that security guards are present in areas where the public has access to cash, that cash drawers are not left open and unattended, that change fund money and enrollment receipts are not transferred in open containers, and that receipts are not retained at the institution overnight. Several weaknesses in the security procedures were found at the Regents' institutions. They were as follows:

1. At Emporia State University, security guards did not adequately patrol the collection area. Public access to the collection area was not adequately controlled, and cash boxes were sometimes left unattended. Cashiers transferred receipts and change fund money in open containers between the collection area and the business office and were not always accompanied by a security guard when making these transfers.
2. Kansas Technical Institute, which has no campus security personnel, had no security guard present during enrollment. As a result, the cashier transferred receipts without an escort from the collection area to the business office.
3. Although Pittsburg State University maintained adequate security within the business office, it did not provide a security guard for cashiers who were receiving payments in rooms outside the business office.
4. Emporia State University, Kansas Technical Institute, and the University of Kansas Medical Center held some receipts in their safes for several days instead of depositing them daily in their agency fee bank accounts. Daily deposits provide more security for receipts.

CHAPTER V

RECOMMENDED UNIFORM PROCEDURES FOR THE COLLECTION OF ENROLLMENT FEES

It is clear from the findings of this audit that each Regents' institution handles its enrollment fee collections in a manner different from the other institutions. It should also be clear that in each of the major areas addressed, some institutions have better procedures than others. The procedures outlined below are in large part a combination of the best procedures now used at various Regents' institutions. Although some of the procedures may require changes at some of the institutions, most are in use successfully somewhere within the Regents' system. Taken together, the procedures outlined below address the problems set forth in this audit with regard to money exposed to loss, compliance with existing statutes, and deposit and control of enrollment money. They should help ensure that enrollment fees are collected in compliance with existing laws and that they are collected in a manner that reduces the potential for loss.

A number of Regents' institutions are currently studying or developing a pre-enrollment system or a student records system that could include pre-enrollment. If an institution develops a system that eliminates the payment of fees during the traditional enrollment, parts of this system of fee collection procedures will no longer apply.

Recommendations

The Board of Regents, acting where necessary with the Division of Accounts and Reports, should develop and put into effect a uniform set of procedures for the collection of enrollment fees at the Regents' institutions which will bring about compliance with existing statutes, meet requirements for internal controls, and reduce the potential for loss of enrollment fees and change fund money. These uniform procedures should address the following points:

Reducing or Eliminating Currency Handled at Enrollment

1. Personal checks should be accepted for the amount of fees only.
2. Two-party checks such as payroll or cashier's checks that require change should not be accepted.
3. The remainder of a student's scholarship, grant, or loan after fees have been paid should be provided by check, not currency.
4. Policies should be established regarding the handling of currency received in payment of fees. Alternatives include the following:
 - Eliminating currency entirely by requiring students to pay their fees by check, credit card, or some other means besides currency.
 - Accepting currency in payment of fees, but establishing means other than a change fund to make change (making change from currency received from other students or writing a check, for example).
 - Accepting currency in payment of fees and establishing a small change fund (perhaps \$100) as an initial means of providing change. The institutions can then use currency received from other students to provide additional amounts of change.

Complying with Statutes

1. All enrollment receipts should be deposited with the State Treasurer as set forth by the Director of Accounts and Reports. Under this requirement, the following must be done:
 - Enrollment receipts must be deposited in the fee bank account as soon as possible so that all receipts collected can be transferred to the State Treasurer when the maximum balance allowed in the fee bank account is reached. To clarify the procedure, the Director of Accounts and Reports should specify the amount of money that can be kept on hand at the institution before a deposit into the fee bank account is necessary.

2. If change funds are maintained, care should be taken to ensure that they are properly authorized by the Director of Accounts and Reports, that they are within the maximum amount allowed by statute, and that they do not exceed this amount if they are replenished by cashing students' checks at the bank.

Establishing Other Effective Internal Control Procedures

1. The duties of the personnel involved in collecting fees should be clearly defined and separated. Under this requirement, the following must be done:

- The custodian of the change fund must be independent of the persons handling receipts.
- The custodian and cashiers must not have access to the fee collection accounting records.
- Cashiers must be responsible for receipts until those receipts are reconciled with the statements of charges, but the cashiers must not perform the reconciliation.
- Bank deposits must be made by someone other than the cashiers.

2. The handling of receipts should be adequately controlled. This control must include the following:

- Checks for payment of tuition and fees must immediately be endorsed for deposit only.
- Whenever possible, the duties of the enrollment cashiers must be separated by type of financial transaction-- payment by check for exact amount of fees, for example.
- Enrollment receipts must not be combined with receipts from other transactions.
- Enrollment fee cards must be cross-checked with the registration cards to help ensure that all fee cards and corresponding fee receipts are accounted for and reported.

3. State receipts should be adequately safeguarded. These safeguards include the following:

- Enrollment receipts and statements of charges must be reconciled and removed from exposure to the public at least twice a day.
- Security guards must be present during the collection of enrollment fees.
- Access to the area in which fees are being collected must be restricted to those persons actually involved in paying or collecting fees.
- Cash drawers and all collected receipts must be attended at all times.
- A security guard must always accompany the transfer of receipts from one location to another.
- Receipts must be transferred in a closed container.
- Deposits must be made to the agency fee account at least daily.

Recommendations for the Legislative Post
Audit Committee

1. The Legislative Post Audit Committee should obtain the views of the Board of Regents and the Division of Accounts and Reports on the proposed system of fee collection procedures. The Committee should determine the Board's intention regarding establishment of a uniform fee collection procedure. The Committee should also obtain information from the Board about the effect of possible pre-enrollment systems on such procedures.

2. If the Committee decides that the size of change funds should be reduced, it should introduce legislation to reduce the maximum size of imprest funds and change funds. The system outlined in the recommendations above would allow an institution to enroll students with a change fund of perhaps \$100.

APPENDIX A

Agency Responses



Board of Regents - State of Kansas

Suite 1416 Merchants National Bank Tower
Topeka, Kansas 66612 (913) 296-3421

October 13, 1977

Dr. Richard E. Brown
Legislative Post Auditor
Legislative Division of Post Audit
Mills Building
Topeka, Kansas 66612

RECEIVED
OCT 14 1977
DIVISION OF POST AUDIT

Dear Dr. Brown:

In response to your letter of September 29, 1977, accompanying the draft audit report concerning "Collecting Enrollment Fees" and in accordance with the discussions at a meeting with members of your staff, the staff of the Board of Regents, the institutional business officers, and representatives of the Division of Accounts and Reports, I am now submitting for your consideration this response of the Board of Regents and the Regents institutions to the draft audit report.

The auditor's recommendations for strengthening internal control, for improving control in handling receipts, for maintaining security over undeposited receipts and for reducing the amount of change required should be implemented to the extent practicable and we are proceeding with such implementation.

Legislative Post Audit Response: *The recommendations referred to constitute a part of the recommended procedure and include such items as clearly defining and separating the duties of personnel involved in collecting fees, reconciling enrollment receipts and statements of charges and removing them from exposure to the public at least twice a day, and ensuring that security guards are present during the collection of enrollment fees. Although the letter appears to indicate that there is no specific disagreement with any of these recommendations, the response states that changes will be made "to the extent practicable." This statement neither indicates whether all recommendations will be adopted nor indicates whether they will be adopted at all Regents' institutions as standard operating policy of the Board of Regents. A uniform system was the aim of the Committee.*

In our opinion, however, the recommendation that students not be allowed to pay their enrollment fees with currency should not be adopted. The administrative problems involved in explaining to students and parents why currency is not legal tender for such purposes would be difficult if not impossible. The

possibility of litigation resulting from a policy of not accepting currency should be considered. In addition, the present problems of collecting "returned checks" because of insufficient funds, wrong account, wrong signature, account closed, etc., would be increased if we forced all students to pay by check. Some students do not have a checking account and would be compelled to take the time and incur the expense of establishing an account, whether they want one or not.

To adopt the auditor's recommendation that "students should be required to pay fees by check, credit card, or some other means besides currency" would also require students and parents to incur considerable inconvenience and expense. Further, the adoption of a credit card system would require that the state negotiate with major credit card companies to eliminate their collection charges or the state would be obliged to adopt legislation authorizing the agencies to pay such charges from the fees collected.

Legislative Post Audit Response: The draft report to which the Board responded contained a recommendation that the Regents' institutions eliminate currency entirely at enrollment by requiring students to pay fees by check, credit card, or some other form of payment besides currency. In the interest of presenting to the Legislative Post Audit Committee a recommended system that could be considered in its entirety instead of becoming mired in a single issue, Legislative Post Audit has modified the recommendation. The recommendation now contains three alternatives, one of which is the no-currency system. If the Legislative Post Audit Committee decides that the Board's objections are valid and important, it can turn to the two others.

Legislative Post Audit has considered all these points before making its initial recommendation, and it remains convinced that the system is workable. The recommendation was made because it would eliminate the exposure of currency to loss and because it would eliminate the need for a change fund at enrollment. As the audit shows, the Regents' institutions have not shown an ability to operate within the statutes governing change funds. Even after the Legislature's concern had been shown through several letters and surveys and finally through the activities of this audit, Wichita State University still failed to obtain proper authorization of its change fund prior to the Fall 1977 enrollment.

The response states that a no-currency policy would cause a number of problems. Legislative Post Audit believes that information about a no-currency policy could easily be included in the publications and materials each student uses to register. Problems with checks returned for lack of funds can be minimized if the institutions adopt--and announce--a policy of terminating enrollment in such instances and requiring students to pay a penalty fee to reactivate their enrollment. Legislative Post Audit investigated

the possibility that litigation could arise from a policy of not accepting currency and was informed by the Office of the General Counsel for the U.S. Department of the Treasury that a university can require payment of tuition and other charges in noncash forms. As to the possibility that the use of credit cards would cause the institutions to pay collection charges, a telephone survey conducted of 55 peer institutions in other states showed that 34, or 62 percent, accepted credit cards. Only one of these institutions was paying collection charges.

We do not agree with the recommendation that the remainder of a student's scholarship, grant, loan, payroll check or other nonpersonal check after fees have been paid should be provided by check, not currency. We do agree that the institutions should consider appropriate ways of minimizing the currency returned as change. The Legislature has established change funds at a level adequate to meet the institutions' enrollment needs. We believe all institutions are complying with the newly established requirements of the change fund and depositing the enrollment receipts in fee bank accounts. It is our opinion, therefore, that legislation should not be introduced to reduce the maximum size of the change funds now authorized. However, we think the current change funds are adequate if used prudently.

Legislative Post Audit Response: The Board's response shows some misunderstanding here about the audit's recommendations. The audit does not recommend that checks be given in change for payroll checks or other non-personal checks. The audit recommends that if such checks are for more than the amount of fees, they not be accepted at all.

Legislative Post Audit has not been encouraged by past efforts of the Regents' institutions to minimize the amount of currency used as change. Most of the institutions already have policies for the maximum amount of change that can be given out to a student. During the period observed by the auditors, only the University of Kansas Medical Center followed these policies. The record of the Regents' institutions in following the statutory requirements for change funds is also not encouraging, as the audit report shows.

Also, as the audit report explains, it is a mistake to assume that a \$20,000 change fund means that an institution will hand out \$20,000 or less in change. The size of the change fund affects only how much change is available at the start of the day and how frequently trips must be made to the bank to replenish the change fund. Pages 13-14 of the audit explain this matter in further detail.

The audit report makes mention of the development of possible computerized pre-enrollment systems and suggests that the Legislative Post Audit Committee obtain information from the Board of Regents about the effect upon fee collection and enrollment procedures. It should be pointed out that many students, parents and socio-economic disadvantaged students are unwilling or unable to pay fees in advance. Approximately fifty percent of the students systemwide receive some form of financial aid, which in most cases would not be available until the beginning of the semester. Furthermore, the collection of enrollment fees is related to but would be independent of the academic pre-enrollment systems. Any enrollment system must still provide for the collection of student fees in some manner with the same attendant problems we now experience. If we eliminate the present fee collection procedures and substitute a pre- or post-collection process including payment by mail, then we would have new or additional problems of setting up accounts receivable, collecting them, costs of mailing, billing, computerizing systems, etc.

Legislative Post Audit Response: *Legislative Post Audit is not recommending payment of fees by mail or by some means drastically different from present procedures. Legislative Post Audit is recommending that the Committee learn from the Board whether its institutions are planning such changes under the pre-enrollment systems they are considering.*

If the risk of loss of the currency necessary to carry on enrollment fee collections at the institutions is considered too great under normal procedures, consideration should be given to providing Regents institutions the legislative authority to purchase a monies and securities insurance policy.

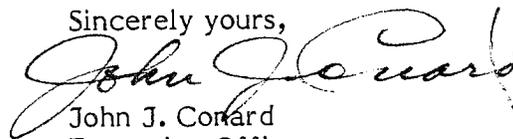
Legislative Post Audit Response: *The need for such a policy is left to the discretion of the Board of Regents. The main concern of this audit was never the loss of monies alone, but rather the issue of statutory violations. No collection procedure can eliminate all possibility of loss. However, the procedure recommended in this report should provide adequate control and safeguarding of receipts.*

We have approached this report with the assumption that the objectives of the Legislature and the Legislative Division of the Post Audit are parallel with that of Regents institutions in that we are jointly striving to work within regulations and statutes in an effort to provide the most convenient and maximum services to the students, parents and public at the most efficient cost possible. It is also our objective to carry out those responsibilities by using proper accounting, auditing and business management principles. In view of our excellent past record in providing safe, efficient collection and deposit of student fees, plus the additional precautions and improvements which are being planned, we look forward to future enrollment and fee-collection periods with great confidence.

Legislative Post Audit Response: Although all parties concerned with enrollment fee collection procedures may share common goals, they may also disagree about how best to meet those goals. The Legislative Post Audit Committee directed that this audit be conducted because the institutions admitted to Legislative Post Audit that they were knowingly violating the laws of the State to meet their goal of serving the student. In its formal motion calling for this audit, the Committee made it clear that one of its goals was to provide legislative oversight by not condoning violations of law.

Please accept our thanks for the diligence of your staff and the pleasant relations we have had with them during this study.

Sincerely yours,



John J. Conard
Executive Officer

JJC:rd

cc: Institutional Business Officers
Director of Accounts and Reports
Walter Hiersteiner, Chairman, Board of Regents
Mr. Glee S. Smith, Jr., Chairman, Budget and
Finance Committee



October 17, 1977

Dr. Richard E. Brown
Legislative Post Auditor
Legislative Division of Post Audit
Room 501, Mills Building
Topeka, Kansas 66612

RECEIVED
OCT 19 1977
DIVISION OF POST AUDIT

Dear Dr. Brown:

Subject: Comments regarding the draft report entitled "Collecting Enrollment Fees at the Board of Regents' Institutions".

Pursuant to your letter request, this office has reviewed the subject draft report and our comments, categorized in three major areas, are as follows.

I. The issue of "eliminating the use of currency at enrollment" appears to be one of a group of "matters involving primarily the exercise of business judgment of management" for which there are no objective standards for an auditor to use in measuring and reporting; and which, in our view, should be evaluated as a business decision, perhaps on a business equation basis utilizing the law of probability and recognizing all perceived advantages and disadvantages of the practice.

Specifically, the recommendations were:

1. Students should be required to pay fees by check, credit card or some other means besides currency.
2. Personal checks should be accepted for the amount of fees only. Payroll checks or other checks that would require change should not be accepted.
3. The remainder of a student's scholarship, grant or loan after fees have been paid should be provided by check, not currency.

The Board of Regents' University Business Managers have perceived a number of business reasons for continuing the present procedures including internal and external factors, i.e.: cost factors; staff level; facilities; campus layout; public relations with parents and students; discounts for credit card; timing involved; interaction between Registrar, Departmental Deans, instructors and students over student status--enrolled, disenrolled, late fee, re-enrollment; costs of maintaining receivables; crediting collections; issuing disenrollment reports and reinstating students; and problem and costs with bad checks.

Admittedly, a system of pre-enrollment coupled with mailed remittances and adequate staffing and data processing resources could reduce cash/currency collections. However, such systems when fully developed and supported would

have a significant cost attached, especially if such systems were developed individually, and could impact the scheduling and conduct of classes. The solution to diverse opinions regarding business decisions that intelligent management should seek, is not the total elimination of risk or errors, but the reduction of the risk or errant procedure to the point at which the cost in preventing further risk or errors exceeds the cost of accepting the remaining probable risk or errors.

An equation for determining the probable loss from the use of cash and currency could be stated as follows:

$$\frac{\text{actual dollar loss experienced}}{\text{number of instances where loss occurred}} \times \frac{\text{number of instances where loss occurred}}{\text{volume of transactions (students enrolled)}} = \text{probable loss per student enrolled}$$

Utilizing the above formula and considering the reported loss of \$1,400 in two instances in the past five years and the enrollment of 54,158 students per year, the equation is as follows:

$$\frac{\$1,400}{2} \times \frac{2}{270,790} = \$.00517 \text{ probable loss per student enrolled}$$

Calculating the \$.00517 probable loss per student times the 54,158 students enrolled (from historical experience), the probable annual loss amounts to \$280.00 which is an annual loss percentage of .000022, which is immaterial considering the \$13 million dollars collected. That is not to say that a greater loss could not occur; however, such losses could be minimized by improvements to the internal control procedures and to security measures, limited of course to the point where the cost of such procedures exceed the cost of carrying them out.

Applying the "rule of reason" to the problem and considering various arguments made by the University Business Managers concerning the perceived advantages in collecting cash and currency at enrollment, it appears there are many higher priority issues confronting state government than that set out in this recommendation.

Legislative Post Audit Response: Legislative Post Audit does not view eliminating currency at enrollment as primarily a business decision. Current procedures used by the Regents' institutions have raised serious questions regarding the institutions' willingness to comply with the law, their ability to limit the amount of currency that may be lost during enrollment, and their ability to follow their own change-making policies. The losses that have been reported are minimal, and they do not constitute a major issue in the audit. Legislative Post Audit believes that other more important issues include the problem of statutory violations, the potential for losing receipts, the possible costs associated with a

loss of receipts, and even the safety of students and employees who receive or handle large amounts of currency. However, the first recommendation has been modified in the final report to make a no-currency system an alternative that can be considered by the Legislative Post Audit Committee, and not an absolute part of the system of fee collection procedures. For the reasons explained in Legislative Post Audit's reply to the response of the Board of Regents, this alternative would still appear to be beneficial and workable.

A few minor points should also be noted. Legislative Post Audit is making no recommendations regarding pre-enrollment systems. The letter's statement that a system of pre-enrollment and payment of fees by mail would reduce currency payments seems to imply that Legislative Post Audit is recommending such a system. This is not the case. The letter uses \$1,400 as the amount reported lost at enrollment over the past two years; the actual figure is \$2,400.

II. The Legislative Post Auditor issued a recommendation under the title "complying with statutes", which stated that:

"Enrollment receipts must be deposited in the fee bank account as soon as possible so that all receipts collected can be transferred to the State Treasurer when the maximum balance allowed in the fee bank account is reached. To clarify the procedure, the Director of Accounts and Reports should specify the amount of money that can be kept on hand at the institutions before a deposit into the fee bank account is necessary."

The Division of Accounts and Reports generally concurs with this recommendation and will modify the existing instructions to clarify the point that deposits are to be made daily into the fee agency account, unless such amounts are incidental (less than \$300), and the out-of-pocket cost in making such deposits exceeds the gain to be derived from such practice; however, deposits in total must be made at the end of each accounting period.

III. The recommendations regarding establishing other effective internal control procedures are proper and ones in which the Division of Accounts and Reports concurs. These recommendations are as follows:

1. The duties of the personnel involved in collecting fees should be clearly defined and separated. Under this requirement, the following must be done:

a. The custodian of the change fund must be independent of the persons handling receipts.

- b. The custodian and cashiers must not have access to the fee collection accounting records.
 - c. Cashiers must be responsible for receipts until those receipts are reconciled with the statements of charges, but the cashiers must not perform the reconciliation.
 - d. Bank deposits must be made by someone other than the cashiers.
2. The handling of receipts should be adequately controlled. This control must include the following:
- a. Checks for payment of tuition and fees must immediately be endorsed for deposit only.
 - b. Whenever possible, the duties of the enrollment cashiers must be separated by type of financial transaction--payment by check for exact amount of fees, for example.
 - c. Enrollment receipts must not be combined with receipts from other transactions.
 - d. Enrollment fee cards must be cross-checked with the registration cards to help ensure that all fee cards and corresponding fee receipts are accounted for and reported.
3. State receipts should be adequately safeguarded. These safeguards include the following:
- a. Enrollment receipts and statements of charges must be reconciled and removed from exposure to the public at least twice a day.
 - b. Security guards must be present during the collection of enrollment fees.
 - c. Access to the area in which fees are being collected must be restricted to those persons actually involved in paying or collecting fees.
 - d. Cash drawers and all collected receipts must be attended at all times.
 - e. A security guard must always accompany the transfer of receipts from one location to another.
 - f. Receipts must be transferred in a closed container.
 - g. Deposits must be made to the agency fee account at least daily.

Legislative Post Audit Response: As the response states, the Division agrees with all of those recommendations by Legislative Post Audit.

If we can provide further information about this matter, please let us know.

Very truly yours,



James R. Cobler, Director
Division of Accounts and Reports

JRC:HG:cm



Board of Regents - State of Kansas

Suite 1416 Merchants National Bank Tower
Topeka, Kansas 66612 (913) 296-3421

December 27, 1977

Dr. Richard E. Brown
Legislative Post Auditor
Legislative Division of Post Audit
Mills Building
Topeka, Kansas 66612

RECEIVED
JAN 03 1978
LEGISLATIVE POST AUDIT

Dear Dr. Brown:

Members of the Board of Regents have carefully reviewed the comments and recommendations contained in the second draft of Legislative Post Audit's report on Collecting Enrollment Fees at the Board of Regents Institutions. I am responding on behalf of the Board to your concerns about the establishment of a uniform enrollment collection system at all Regents institutions.

As Dr. Conard stated in his recent letter, the Regents institutions are taking steps to implement many of your recommendations to strengthen internal control, improve control in handling receipts, maintain security over undeposited receipts and reduce the amount of change required to the extent possible within available resources. We are proceeding with such implementation.

The Board members object to the post audit recommendation regarding the establishment of a completely uniform system of enrollment collection procedures at all of its institutions. The Board feels that differences in size, mission, resources, enrollments and fee schedules among the Regents institutions are some of the reasons that preclude complete uniformity. A specific case in point is the situation at Kansas Technical Institute. A minimum of three additional positions would be required to implement your recommendations--one security guard and two account clerks. The estimated cost of such additional positions would be between \$20,000 and \$25,000 a year. The annual cost to the state in securing additional personnel to satisfy uniformity recommendations is far greater than the amounts lost during the past ten years at all the Regents institutions and certainly greater than the amounts likely to be lost in the future.

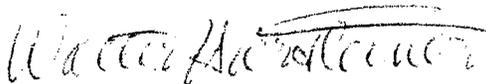
Legislative Post Audit Response: Two temporary positions, not three full-time positions, would be necessary to implement the recommended uniform fee collection procedure at Kansas Technical Institute. The estimated annual cost for these positions (Account Clerk I and Security Guard) is \$735.

It is possible for the Regents institutions to comply with all recommendations of the audit report. In our opinion, however, the result would considerably reduce services to students and parents and would substantially increase the need for additional personnel and physical facilities. We are unable to see that absolute uniformity is necessary or even desirable. The costs to achieve it would be high and the benefits would be small.

Legislative Post Audit response: The Legislative Post Audit Committee directed that a uniform procedure be developed for all Regents' institutions because it found that some Regents' institutions were knowingly violating the laws governing the collection of enrollment receipts. The recommended uniform fee collection procedure is not designed to provide absolute uniformity in every detail but to ensure a minimum level of financial security in the receipt of State funds.

I appreciate this opportunity to comment on the report and urgently request the matter be given further consideration.

Sincerely yours,



Walter Hiersteiner, Chairman
Board of Regents, State of Kansas

WH:PA

LEGISLATIVE DIVISION OF POST AUDIT

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