



PERFORMANCE AUDIT REPORT

Personal Computer Sales By State University Bookstores

**A Report to the Legislative Post Audit Committee
By the Legislative Division of Post Audit
State of Kansas
October 1989**

Legislative Post Audit Committee

Legislative Division of Post Audit

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PERFORMANCE AUDIT REPORT

PERSONAL COMPUTER SALES BY STATE UNIVERSITY BOOKSTORES

OBTAINING AUDIT INFORMATION

This audit was conducted by Trudy Racine, Senior Auditor, and Allan Foster, and Tom Vittitow, Auditors, of the Division's staff. If you need any additional information about the audit's findings, please contact Ms. Racine at the Division's offices.

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PERSONAL COMPUTER SALES BY STATE UNIVERSITY BOOKSTORES

Summary of Legislative Post Audit's Findings

Which universities in Kansas sell personal computers, how many have they sold, and have those sales complied with the terms of the arrangements or contractual agreements? Four institutions -- the University of Kansas, Kansas State University, Wichita State University, and the University of Kansas Medical Center -- are selling computers through their bookstores, which are operated by their student union corporations. Several other institutions take orders or distribute order forms for computers that are subsequently processed by local vendors. The universities' contractual agreements generally restrict computer sales to faculty, students, or staff, and limit those individuals' purchases to one computer a year at most.

Our audit work concentrated on the University of Kansas and Kansas State University, the two Regents' institutions that sold the most computers. Our audited figures showed that those two universities' bookstores sold a combined total of 1,573 computers during the last two fiscal years. Computers and other related items the bookstores sold totaled almost \$3.5 million in sales. Both bookstores sold a small number of customers more than one computer, which was not allowed under their contracts with computer companies, and both also sold a small number of computers to people who were not eligible to purchase them. Neither university is receiving free computers as a result of its bookstore's computer sales.

Have these computer sales been financed by the universities? Computer sales are not being financed with State moneys at either the University of Kansas or Kansas State University. The University of Kansas makes loan funds available through federally guaranteed loan programs, and the Kansas University Endowment Association also makes loans for computer purchases. Kansas State University grants only emergency loans for books, supplies, and living expenses. Its bookstore does provide information about computer financing from other sources, and it also accepts charges on credit cards.

The report makes several recommendations intended to improve the bookstores' compliance with their contractual requirements. We would be happy to discuss the recommendations or any other items in the report with any legislative committees, individual legislators, or other State officials.



Meredith Williams
Legislative Post Auditor

Personal Computer Sales by State University Bookstores

Recently, members of the Joint Committee on Economic Development learned that several Kansas universities' bookstores were selling computers to students, faculty members, and perhaps others at low prices. Committee members and conferees expressed concerns about this practice. To address these concerns, the Legislative Post Audit Committee directed the Legislative Division of Post Audit to conduct a performance audit answering the following questions:

1. Which universities in Kansas sell personal computers, how many have they sold, and have those sales complied with the terms of the arrangements or contractual agreements?
2. Have these computer sales been financed by the universities?

To answer these questions, we interviewed officials at all the Regents' institutions and reviewed the terms of their computer sales agreements. At the University of Kansas and Kansas State University, we reviewed and analyzed records showing which types of computers have been sold at the university bookstores, how many, at what price, and to whom. We then reviewed a sample of purchases at both universities to determine whether they complied with the terms of the contracts, and we examined all multiple purchases. In addition, we reviewed documentation and interviewed university officials to determine whether the universities received any free computers as part of the bookstores' arrangements with computer companies.

We also interviewed university officials to determine what types of financial arrangements they made available to student purchasers. At the University of Kansas, we also reviewed loan records at the Student Financial Aid Office and the Kansas University Endowment Association.

We found that four institutions—the University of Kansas, Kansas State University, Wichita State University, and the University of Kansas Medical Center—are selling computers through their bookstore corporations. Several other institutions take orders or distribute order forms for computers that are subsequently processed by local vendors. The universities' contractual agreements generally restrict computer sales to faculty, students, or staff, and limit those individuals' purchases to one computer a year at most. The University of Kansas and Kansas State University sold a combined total of 1,573 computers during the last two fiscal years. Some sales at each university were not in compliance with the bookstores' contractual agreements. Neither university is receiving free computers as a result of its resale agreements.

We also found that computer sales are not being financed with State moneys by either the University of Kansas or Kansas State University, but that the Kansas University Endowment Association does provide loans for computer purchases, and other types of student financial aid may be used for that purpose as well. Those findings are presented in greater detail in the following portions of this audit.

Which Universities in Kansas Sell Personal Computers, How Many Have They Sold, and Have Those Sales Complied With the Terms of the Arrangements or Contractual Agreements?

Interviews with University officials indicated that the University of Kansas, Kansas State University, the University of Kansas Medical Center in Kansas City, and Wichita State University all sell computers through their bookstores, which are operated by their student union corporations. In addition, several universities take orders or distribute order forms for computers that are processed by local vendors. The universities' contractual agreements restrict computer sales to faculty, students, or staff, and generally limit those individuals' purchases to one computer a year at most.

Most of our audit work focused on the University of Kansas and Kansas State University, the two Regents' institutions that sold the most computers. Our audited figures showed those two universities sold a combined total of 1,573 computers during the last two fiscal years. Each university made some sales that did not comply with the terms of its contractual agreements. These findings are described below.

Several Universities Sell Computers Through Their Bookstores, and Several Others Take Orders or Provide Order Forms for Local Vendors

We interviewed officials from each Regents' institution to determine whether computers were currently being sold on campus. We found that four institutions are currently involved in computer sales through their bookstores. The University of Kansas sells Apple Macintosh computers. Kansas State and Wichita State Universities both sell Apple, IBM, and Zenith computers. The University of Kansas Medical Center in Kansas City sells Zenith computers. Emporia State University and the University of Kansas School of Medicine in Wichita take orders for IBM computers. Several other universities simply distribute order forms and certify that students, faculty, or staff members are eligible for educational discounts.

We obtained additional information about computer sales from all four universities. In addition, we obtained and reviewed a copy of each type of contract they have with IBM, Apple, and Zenith. That review showed that the universities were all participating in standard programs that are available to educational institutions nationwide.

All university computer sales are made under standard nationwide contracts. We noted several differences in the universities' contractual agreements with the three firms involved at the time of this audit, as follows:

IBM. The Education Product Coordinator agreements IBM had with Kansas State, Emporia State, and Wichita State Universities and the University of Kansas School of Medicine in Wichita did not permit the universities to sell IBM computers. Instead, those agreements provided for the university bookstores to take orders for

IBM equipment, and permitted the equipment purchased to be shipped either to the bookstore or to another licensed IBM dealer. According to company representatives,

Exploring the Issue of University Bookstores Competing With Private Computer Vendors

One of the legislative concerns raised in this area has been that university bookstores were competing against private local computer vendors. Some controversy has stemmed from the sale of Apple computers at the University of Kansas and Kansas State University bookstores.

These schools participate under two different programs offered by Apple, both of which allow university bookstores to sell computers at substantial discounts. At the University of Kansas, the Burge University Bookstore sells computers and uses the bookstore's own Apple-certified computer staff to set up the purchased equipment and provide other support. No local dealer is directly involved in the sale or delivery of these computers, but the bookstore does have a contract with a local vendor to provide warranty services.

The K-State Union Bookstore sells computers, but under its program with Apple a local dealer is involved as a third party in the contract. The dealer sets up the purchased equipment and provides other support, and receives a percentage of the bookstore's sales directly from Apple. (Both Kansas State University and the University of Kansas have the latter type of agreement for their internal computer purchases as well. Such purchases are not made through the bookstores.)

During this audit, we interviewed officials at both universities to find out why computers were being sold through the bookstores, what benefits dealers might derive from the contracts, and what types of complaints they had received from dealers.

Officials at both schools indicated that the bookstores' computer sales helped promote computer literacy and the sale of computers to students and faculty who otherwise might not be able to afford them. They also suggested that the bookstores' participation in Apple's programs reduced the pressure on the universities to provide more computer labs and work stations using State moneys.

Both officials noted that local dealers benefitted from Apple's program in which the local dealer is involved as a third party and receives a percentage of the bookstores' sales or the universities' internal purchases. They also cited the fact that local dealers had the opportunity to sell additional software or upgraded equipment, provide warranty and other repair or maintenance services, and the like.

The official at Kansas State University indicated that the school had not received any complaints directly from local vendors. At the University of Kansas, the official did not mention any complaints that might have been received. According to Apple representatives, Lawrence has not had an authorized Apple dealer since January 1988.

During this audit, we also reviewed testimony made by a computer vendor before the Joint Committee on Economic Development. In his testimony, that vendor indicated that the university bookstores' practices of selling Apple computers had seriously hurt his businesses in Lawrence and Manhattan. He said that his sales had dropped significantly, and that several employees had lost their jobs as a result. He expressed concerns about the economic impact of such practices on small businesses. This vendor was the support dealer during fiscal year 1989 for the K-State Union Bookstore's computer sales and for both the University of Kansas' and Kansas State University's internal computer purchases, for which he received a percentage commission from Apple. Although he has never been an authorized Apple dealer in Lawrence, he provided this support through his store in Manhattan, where he is the authorized Apple dealer.

During this audit, we also contacted the dealer with whom both universities have contracted to provide support services for fiscal year 1990. At the time of the audit, this vendor was not the authorized Apple dealer in either Manhattan or Lawrence. He is the authorized Apple dealer in Overland Park, and was in the process of establishing locations to provide services to the universities in both areas. This individual indicated he had no problems with Apple's program of selling computers through university bookstores because Apple was passing the discounts on to the students, and because he was receiving a percentage of the K-State Union Bookstore's sales and both universities' internal computer purchases from Apple. He also indicated that it was Apple's decision to make lower discounts available through university bookstores than through private dealers, and that he was not bothered by that relationship. He said he thought the students who were buying computers from the university bookstores would not have been able to afford them otherwise, and that as a dealer he would have greater opportunities to provide training and sell these students other accessories like software.

this is a nationwide IBM program in which more than 1,000 educational institutions participate.

At the time of this audit, Kansas State and Wichita State Universities accepted deliveries of IBM computers at their bookstores. Emporia State University's orders were processed by and delivered to a local IBM dealer. The University of Kansas School of Medicine in Wichita submits the orders it receives to IBM, but the equipment is delivered to a local vendor. Under the agreements with Kansas State and Wichita State Universities, the bookstores received a small percentage commission from IBM, and were permitted to charge the customer an order fee based on a percentage of the purchase cost as well. Local dealers provided installation and training. Fort Hays State University also has a signed Education Product Coordinator agreement with IBM, but it does not actually take orders for the computers. Instead, Fort Hays State University's staff certifies that students, faculty, and staff are eligible for educational discounts and provides order forms, which the purchasers must take to a local vendor for processing. University of Kansas officials indicated they were currently considering two IBM proposals for on-campus computer sales, but did not intend to take any action on those proposals until it is clear what action the Legislature intends to take on university computer sales.

Zenith. The Zenith agreements in effect at Wichita and Kansas State Universities at the time of the audit were both Higher Education Reseller agreements. Those agreements permitted the university bookstore corporations to purchase Zenith computers and other equipment at standard discounts depending on volume of sales, add a markup, and sell the computers to faculty, staff, and students. Local dealers provided installation. According to Zenith representatives, this is a national program in which approximately 110 institutions currently participate. The University of Kansas Medical Center was participating in an Educational Account Purchase agreement. Zenith representatives indicated approximately 1,000 schools participate in that type of agreement, which provides discounts at rates similar to State contract prices.

Zenith representatives also indicated that several other schools had permission to provide order forms and verify student and faculty status for purchases of Zenith computers through local dealers. These schools include the University of Kansas, Emporia State University, Fort Hays State University, Pittsburg State University, and Kansas Technical Institute. In our interviews with university officials, Emporia State and Fort Hays State Universities, and the University of Kansas School of Medicine in Wichita indicated they were currently providing this service.

Apple. The universities participated in two different types of Higher Education Purchase Programs with the Apple Corporation. Under the Apple agreement with the University of Kansas Memorial Corporation, the Burge Union Bookstore sells computers and is responsible for providing its own Apple-certified computer staff. This contract provides the bookstore with the largest available educational discount for the volume of computers it sells. The Apple contract with Kansas State and Wichita State Universities authorizes the bookstores to sell computers, but a local vendor is responsible for providing trained support staff, as well as user support and training services. (Fort Hays State University has signed a similar agreement, but has not yet begun selling computers.) The local vendor receives a commission from Apple based

on a percentage of the institution's sales. According to one vendor we interviewed, this commission was equal to 10 percent of one university's sales. Apple representatives indicated that these are nationwide programs, and that more than 600 educational institutions currently participate in one or the other of them.

The Bookstores at the University of Kansas and Kansas State University Sold a Total of 1,573 Computers During the Past Two Fiscal Years

To determine how many computers Kansas universities have sold, at what price, and to whom, we obtained and reviewed records of computer sales at the University of Kansas and Kansas State University for fiscal years 1988 and 1989. Because of the limited time frame for this audit, we did not go to Wichita, Fort Hays, or Emporia State Universities or the University of Kansas Medical Center. However, we did request information from those institutions about their computer sales. According to its internal records, Wichita State University Bookstore sold a total of 50 Zenith and IBM computers in fiscal year 1988, and 92 Zenith, IBM, and Apple computers in fiscal year 1989. University of Kansas Medical Center bookstore representatives indicated they had sold about 90 computers since July 1987. The number of orders Emporia State University took for IBM equipment was not available, and none of the institutions that provided order forms knew how many orders were actually placed.

The Burge Union Bookstore at the University of Kansas sold more than \$2.7 million in computers and other equipment during the past two fiscal years. Our review showed that the Bookstore sold a total of 555 Apple computers or computer "packages" during fiscal year 1988. (The bookstore sells many of its computers with other items such as a printer, monitor, or keyboard, for a discounted total "package" price.) The total amount of these computer sales was \$1,037,790. In addition, the bookstore sold other computer equipment (including such things as printers, keyboards, and disk drives priced separately) totaling \$143,959.

In fiscal year 1989, the Burge Union Bookstore sold 646 computers or computer packages with a value of \$1,324,632. In addition, the Bookstore sold \$261,992 worth of other computer equipment. The following table shows the number of students, faculty, and others who bought computers or computer packages each year. Complete information about the amount and type of sales each year is presented in Appendix A.

**Burge Union Bookstore at the University of Kansas Computer Sales
Fiscal Years 1988 and 1989**

| Type of Purchaser | Number of Apple Computers Sold | | Total Number |
|---------------------------|--------------------------------|------------------|--------------|
| | Fiscal Year 1988 | Fiscal Year 1989 | |
| Students | 464 | 545 | 1,009 |
| Faculty/staff | 80 | 78 | 158 |
| Departments | 9 | 22 | 31 |
| Student Organizations | <u>2</u> | <u>1</u> | <u>3</u> |
| Total Number of Computers | 555 | 646 | 1,201 |
| Total Sales (all items) | \$1,181,749 | \$1,586,624 | \$2,768,373 |

The K-State Union Bookstore sold more than \$700,000 in computers and other equipment during the past two fiscal years. Our review showed that the K-State Union Bookstore sold a total of 161 IBM or Zenith computers or computer "packages" during fiscal year 1988. The total amount of these computer sales was \$233,566. In addition, the bookstore sold other computer equipment totaling \$20,702. In fiscal year 1989, the K-State Union Bookstore also sold Apple equipment, and computer sales increased to 211 computers or computer packages with a value of \$408,061. In addition, the Bookstore sold \$61,010 worth of other computer equipment. The following table shows the number of students, faculty, and others who bought computers or computer packages each year. Complete information about the amount and type of sales each year is included in Appendix A.

K-State Union Bookstore Sales Of Computers or Computer Packages

Fiscal Year 1988

| <u>Type of Purchaser</u> | <u>Equipment Manufacturer</u> | | | <u>Total</u> |
|--------------------------|-------------------------------|------------|---------------|--------------|
| | <u>Apple</u> | <u>IBM</u> | <u>Zenith</u> | |
| Students | na | 11 | 76 | 87 |
| Faculty/staff | na | 2 | 68 | 70 |
| Student Organizations | na | 0 | 1 | 1 |
| Unknown | na | <u>0</u> | <u>3</u> | <u>3</u> |
| Total | na | 13 | 148 | 161 |

Fiscal Year 1989

| <u>Type of Purchaser</u> | <u>Equipment Manufacturer</u> | | | <u>Total</u> |
|------------------------------------|-------------------------------|------------|---------------|--------------|
| | <u>Apple</u> | <u>IBM</u> | <u>Zenith</u> | |
| Students | 47 | 52 | 47 | 146 |
| Faculty/staff | 9 | 9 | 45 | 63 |
| Student Organizations | 0 | 0 | 2 | 2 |
| Unknown | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> |
| Total | 56 | 61 | 94 | 211 |
| Total Computers Sold Both Years | 56 | 74 | 242 | 372 |
| Total Sales (all items) Both Years | \$154,996 | \$174,937 | \$393,406 | \$723,339 |

The Universities' Contractual Agreements Place Several Types of Restrictions on Their Sales

Each company prohibits customers who buy computers through university contracts from further reselling those computers. The universities' agreements with IBM, Apple, and Zenith all require them to sell computers only to students, faculty, or

staff, and limit the frequency of computer purchases. (The frequency of purchases of other equipment, such as disk drives, monitors, and keyboards, is not regulated.) The various firms' specific requirements are shown in the table below.

| <u>Type of Computer</u> | <u>Requirements for Student, Faculty or Staff Status</u> | <u>Limits on Frequency of Purchase</u> |
|-------------------------|---|---|
| IBM | Students must be enrolled in a course of study leading to a degree or certificate. Does not specify full-time requirement for purchasers. | one computer each year |
| Apple | Students, faculty, and staff must be full-time, but the university determines what to consider as full-time. | one computer and one Laserwriter printer during college tenure for students; for faculty and staff, two years |
| Zenith | Student, faculty, or staff can be full-time or part-time. A valid ID card is usually sufficient proof of eligible status. | one computer each year |

Both universities we visited required purchasers to sign statements indicating they understand and will comply with the applicable restrictions.

Some Sales Were Not in Compliance With The Bookstores' Contractual Agreements

Each computer company placed certain restrictions on the university bookstores regarding their sales. To determine whether the bookstores were complying with those restrictions, we reviewed each bookstore's contracts as well as its forms and procedures. We also reviewed a sample of 50 purchases at each university for compliance with the applicable purchase requirements, and attempted to obtain additional information about all individuals who purchased more than one computer in a one-year period. We found some problems at each university, as described in the following sections.

Neither university fully complied with contract provisions limiting the number of computers students could buy. We found a total of 16 people at the University of Kansas and two at Kansas State University who purchased two computers during the two-year period we examined. (No one bought more than two computers.) The 16 individuals at the University of Kansas included 13 students and three faculty or staff members, and all their purchases were for Apple computers. The two individuals at Kansas State University included one student and one faculty member, and both of their purchases were Zenith computers.

We reviewed information Kansas State University officials provided us about their contacts with individuals who bought several computers, and also contacted some of the individuals who bought two computers at the University of Kansas ourselves. Several of those individuals indicated one of the computers they purchased

was used primarily by another person in their family, but others indicated they were still using both computers themselves.

In its contract, Zenith restricts its sales to one computer per eligible buyer each year. Thus, the two individuals who purchased two computers at Kansas State University in a one-year period were clearly in violation of that agreement.

The Apple contract that was in effect at the University of Kansas during the period we examined indicated that students, faculty, and staff were allowed to purchase only one computer unless Apple gave its prior, written consent. (For faculty and staff only, that restriction changes to one every two years under the universities' contracts signed in fiscal year 1990.) In addition, the Burge Union Bookstore's form that purchasers must sign indicates that they are limited to a one-time purchase. At the University of Kansas, the time between purchases for the 16 people who bought two Apple computers ranged from two months to 16 months.

**Information about the
Burge Union Bookstore's
"Truckload" Computer Sale**

One concern that arose in legislative hearings about personal computer sales involved a "Truckload Sale" of computers that occurred at the University of Kansas in early 1988. According to officials at the University, this promotion was called a "truckload sale," but the computers were not sold off the truck. The computers were pre-ordered at sale prices, then delivered to the bookstore on March 31, 1988, and sold to the students on April 1, 1988. University officials indicated the only thing that was different about this sale was that the machines were pre-ordered, and that additional Apple staff were on campus to help with the deliveries. They said that the idea for that promotion came from Minnesota and other universities that have had similar promotions.

The truckload sale was also the time of the single direct mailing that was made to University of Kansas students' parents. Apple had done similar things in connection with large promotions in other states. It was during this 1988 sales promotion that the University placed some restraints on Apple's contacts with the on-campus student advertising club, which was the group that was involved in putting computer advertisements on doors off campus. This sale and mailing occurred at a time when there was no authorized Apple dealer in Lawrence.

In a related issue, we found that officials at the K-State Union Bookstore were interpreting the new requirements for fiscal year 1990 as allowing faculty, staff, and students to buy an additional computer every two years. We did not examine any computer purchases made under the fiscal year 1990 contract, but it appears that some ineligible students may be allowed to buy more than one computer under the Bookstore's interpretation.

We also found some instances at both universities in which students bought computers for student organizations, or faculty or staff bought computers for departments. These types of situations are not spelled out in the universities' contracts, although Apple officials told us that individuals should not be buying computers other than for their own personal use under the contracts.

Although multiple purchases were a very small percent of total sales, it appears that the universities should be enforcing similar rules under the same contracts. To ensure that the bookstores are not selling individual customers more computers than allowed or making unauthorized sales to departments or organizations, university officials should meet with Apple representatives to clarify these requirements.

Both universities have recently entered all of their computer sales into computerized databases that permit them to readily determine whether a prospective buyer has purchased a computer before. Once the universities clarify with Apple what restrictions they should be enforcing, it appears to us this change should help the bookstores avoid making unauthorized sales.

A small number of students in our samples at both universities either were not enrolled or were not enrolled full-time on the date they purchased their computers. Five of 50 people in our sample at the University of Kansas were not enrolled full-time on the date they purchased their computers. According to the Apple contract, those students were not eligible to buy computers at the bookstore. The Burge Union Bookstore at the University of Kansas has changed its procedures for the Fall 1989 Semester. In addition to the copy of a valid student or faculty identification card that the bookstore had previously been requiring purchasers to provide, it is now also requiring students to provide an official copy of their enrollment information as of the date of their purchase. Faculty and staff must provide a letter from their Department verifying their employment, and graduate assistants must provide both the enrollment information and a letter from their Department. It appears to us that this procedure, if followed consistently, should assist the bookstore in eliminating ineligible sales.

Six of the 50 people in our sample at Kansas State University were either not enrolled or were not enrolled full-time on the date they purchased their computers. Five of the six had been enrolled in previous semesters, but were not enrolled on the date of purchase. One student was enrolled part-time, but purchased an Apple computer, which requires full-time enrollment.

Eight people who bought computers or related equipment at Kansas State University could not be identified as being or having been students, faculty, or staff. Not all the sales slips on file at the K-State Union Bookstore identified the status of the purchaser as student, faculty or staff. To categorize those purchases accurately, we checked the 65 names and Social Security numbers that were not identified with the University's registrar and personnel office to determine the individual's status at the time of purchase. We were unable to determine the status of eight individuals. Three of those individuals purchased computers and the other five purchased other computer-related equipment.

At the time of this audit, the K-State Union Bookstore was only requiring purchasers to present a student, faculty, or staff identification card to establish their eligibility to purchase a computer. In our view, that procedure does not appear to be sufficient to ensure that students are actually enrolled, or that they meet the full-time enrollment requirement to purchase Apple computers.

Universities Are Not Receiving Free Computers as a Result of Their Bookstores' Computer Sales Contracts

In our review of the universities' contracts with all three computer firms, we did not find any provisions for the firms to provide the universities with free or reduced-

price computers. Officials at both the University of Kansas and Kansas State University indicated that the universities had not received any free computers associated with the bookstore contracts. The University of Kansas had received free computers and matching arrangements from Apple, but those arrangements were negotiated separately by the departments and had no relationship to the bookstore's contract. The University also recently received a grant from Apple, but it was not associated with the bookstore contract either. According to Apple representatives, the firm has also donated computers to Wichita State University and Kansas State University under similar arrangements.

Summary and Conclusion

During fiscal years 1988 and 1989, the bookstores at the University of Kansas and Kansas State University sold a combined total of 1,573 computers. Both bookstores sold a small number of customers more than one computer, which was not allowed under their contracts with computer companies. The universities appear to be interpreting their Apple contracts differently, which could result in their enforcing different rules for the purchase of Apple computers, or in making unauthorized sales. Both bookstores have recently entered all their computer sales into computerized databases that permit them to readily determine whether a prospective buyer has purchased a computer before. Once the restrictions under the Apple contract are clarified, this change should help the bookstores avoid making unauthorized sales in the future.

Both universities also sold a small number of computers to people who were not eligible to purchase them. Recent changes the Burge Union Bookstore at the University of Kansas has made should help the Bookstore eliminate ineligible sales, if the procedures are consistently followed. However, at the time of this audit, the K-State Union Bookstore procedures did not appear to be sufficient to ensure that students were actually enrolled, or that they met the full-time enrollment requirement to purchase Apple computers.

Recommendations

1. To ensure that Kansas university bookstores are enforcing the same requirements, officials from each bookstore or other university entity selling Apple computers should meet with representatives of the Apple Corporation to clarify the requirements relating to the frequency of purchase and sales to student organizations and departments. Those requirements should be put in writing so they can be uniformly enforced at each university.

2. To ensure that computers are sold only to qualifying students, faculty, or staff, the K-State Union Bookstore should require individuals buying computers to provide additional proof of eligibility, beyond a current identification card.

Have These Computer Sales Been Financed By the Universities?

Neither university was financing computers with University funds. The University of Kansas makes loan funds available through federal financial aid programs, and the Kansas University Endowment Association also makes loans for computer purchases. Kansas State University grants only emergency loans for books, supplies, and living expenses. The K-State Union Bookstore does provide information about computer financing from other sources, and it also accepts charge cards.

The University of Kansas Makes Loan Funds Available Through Federal Financial Aid Programs

An information sheet available in the Burge Union Bookstore at the University of Kansas informs students that they may be able to get a loan for a computer purchase in three ways: through the Kansas University Endowment Association, as an enhancement to their need-based financial aid, or through a non-need-based loan. The Student Financial Aid Office processes the applications for all three types of loans, including the Endowment Association loans, but the records of the Endowment Association's loans are kept at the Association. Under any of these programs, the student must justify in writing the need for a computer. Any funds received may be used to purchase a computer from any source, not just the bookstore.

To obtain student financial aid through the needs-based loan and grant programs the Student Financial Aid Office administers, such as the Perkins Student Loan or Stafford (formerly Guaranteed Student) loan programs, the students' parents must submit a financial statement. The University provides information about standard budgeted needs to attend the University, and if the student's and parents' resources are not sufficient to cover that budgeted need, the student may receive financial aid. In these cases, there is no way to tell if the student spent some of the money for a computer.

In some cases, qualifying students may want to purchase a computer or have some additional need—like a large medical bill—after they receive their financial aid. The Student Financial Aid Office can increase their budget by the additional amount and grant a "loan enhancement." To qualify for these programs, students must be making satisfactory academic progress: they must be enrolled full time and have a grade point average of 2.0 by the end of the fourth semester in school. These loans carry a preferred interest rate and repayment is deferred until the seventh month after graduation. According to a financial aid official, the Office began considering computer purchases as a qualifying reason for a loan enhancement in fiscal year 1989.

According to officials of the Financial Aid Office, the non-need-based financial aid referred to on the information sheet distributed in the bookstore is generally loans taken out by parents through the PLUS (Parents Loan) program or the PAL (Parents Assistance Loan) program. These loans have a 12 percent interest rate. The PLUS program provides up to \$4,000 and the PAL program can provide an additional \$2,000.

According to the Associate Director of the Student Financial Aid Office, the availability of loans for computers does not mean that other needs go unfunded.

Only one student out of a sample of 100 who purchased computers at the Burge Union Bookstore in fiscal year 1989 obtained a loan enhancement through the Financial Aid Office for that purpose. About one in four of the students we checked had received some type of assistance through the Financial Aid Office. As mentioned above, those individuals could have used some of the funds they received to purchase computers, but we had no way to determine whether they did so. We did identify one student who received an "enhancement" of his Stafford loan specifically to purchase a computer. That student received an additional loan of \$700. The loan rate on that loan is eight percent for the first four years of repayment and 10 percent thereafter. The amount outstanding is unknown because loan payments go directly to the lender. However, these loans are deferred, interest-free, until the seventh month after graduation, and student financial aid officials indicated few students begin to repay them until that time.

The Kansas University Endowment Association Offers Loans For Academic Purposes Including Computer Purchases

Under Endowment Association loan programs, an undergraduate student may borrow up to \$1,200 and a graduate student may borrow up to \$2,400. To qualify for these loans, students must have an overall grade point average of 2.0 and their parents must co-sign the loans. The loans are at six percent interest, payable the fourth month after graduation. According to Endowment Association officials, the loans are made to students for "academic purposes." Computers purchased through Endowment Association funds do not have to be purchased at the Burge Union Bookstore. In addition, officials indicated that making funds available for computers has not made loans for other academic purposes less available.

Eighteen students in a sample of 100 who purchased computers at the Burge Union Bookstore during fiscal years 1988 and 1989 obtained a loan for the purchase from the Kansas University Endowment Association. To determine the extent to which Endowment Association loans are being used to finance computer purchases at the Burge Union Bookstore at the University of Kansas, we selected a sample of 100 students and obtained information from their loan files at the Kansas University Endowment Association. That information indicated that 16 of the 100 students had requested and received the maximum allowable loan of \$1,200 for a computer purchase while two requested and received \$800. Thus, the average amount loaned was \$1,156. (We did not attempt to identify the number of Endowment Association loans that were used to finance computers purchased from vendors other than the bookstore.) All the loan applications we reviewed stated the funds would be used for a computer. If the percentages for our sample held true for all student purchases of computers at the bookstore, as many as 182 students could have received loans totaling about \$210,000 from the Endowment Association during fiscal years 1988 and 1989 to buy computers at the bookstore.

The Endowment Association loans were granted at a uniform interest rate of six percent, which was from three percent to six percent lower than the base commercial rates available at the time the loans were granted. Endowment Association loans are due in full the fourth month after graduation. If students do not repay them at that time, the interest rate is doubled to 12 percent and a repayment schedule is established. Loan repayment information for these loans was not available, but officials indicated most students do not repay them until they are due.

The K-State Union Bookstore Provides Information About Computer Financing from Commercial Sources, And It Also Accepts Charges on Credit Cards

Although computer loans are not available from on-campus sources at Kansas State University, the Bookstore does provide brochures from the Apple, Zenith, and IBM corporations about financing options. The Apple and Zenith programs are identical loan programs that make available from \$2,000 to \$10,000 for computer equipment and other educational expenses. The two firms charge a variable interest rate based on the annual average of 91-day U.S. Treasury bills, plus 3.5 percent. At the time of this audit, the interest rate being charged was 11.7 percent.

The IBM program is a revolving credit line similar to a credit card account. Interest is set at 19.8 percent, but Kansas only allows 19.8 percent to be charged on balances up to \$1,000, and 14.4 percent on balances in excess of \$1,000.

Because these programs require minimum incomes of at least \$18,000, it is likely that most applications are made by parents, not students. And because the programs are all nationwide, they could be used to purchase computers from other vendors in addition to the K-State Union Bookstore.

In addition to these three programs, at least one local lender has made loan applications available to students at the bookstore.

The K-State Union Bookstore also accepts Mastercard, Visa, and American Express charge cards for computer purchases, while the Burge Union Bookstore at the University of Kansas accepts only cash or cashiers checks.

Summary

Neither university we visited was financing computers with University funds. The University of Kansas makes loan funds available through nationwide loan programs, and the Kansas University Endowment Association also makes loans for computer purchases. Kansas State University grants only emergency loans for books, supplies, and living expenses. The K-State Union Bookstore does provide information about computer financing from other sources, and it also accepts charge cards.

APPENDIX A

**Summary of Computer Sales at State Universities
For Fiscal Years 1988 and 1989**

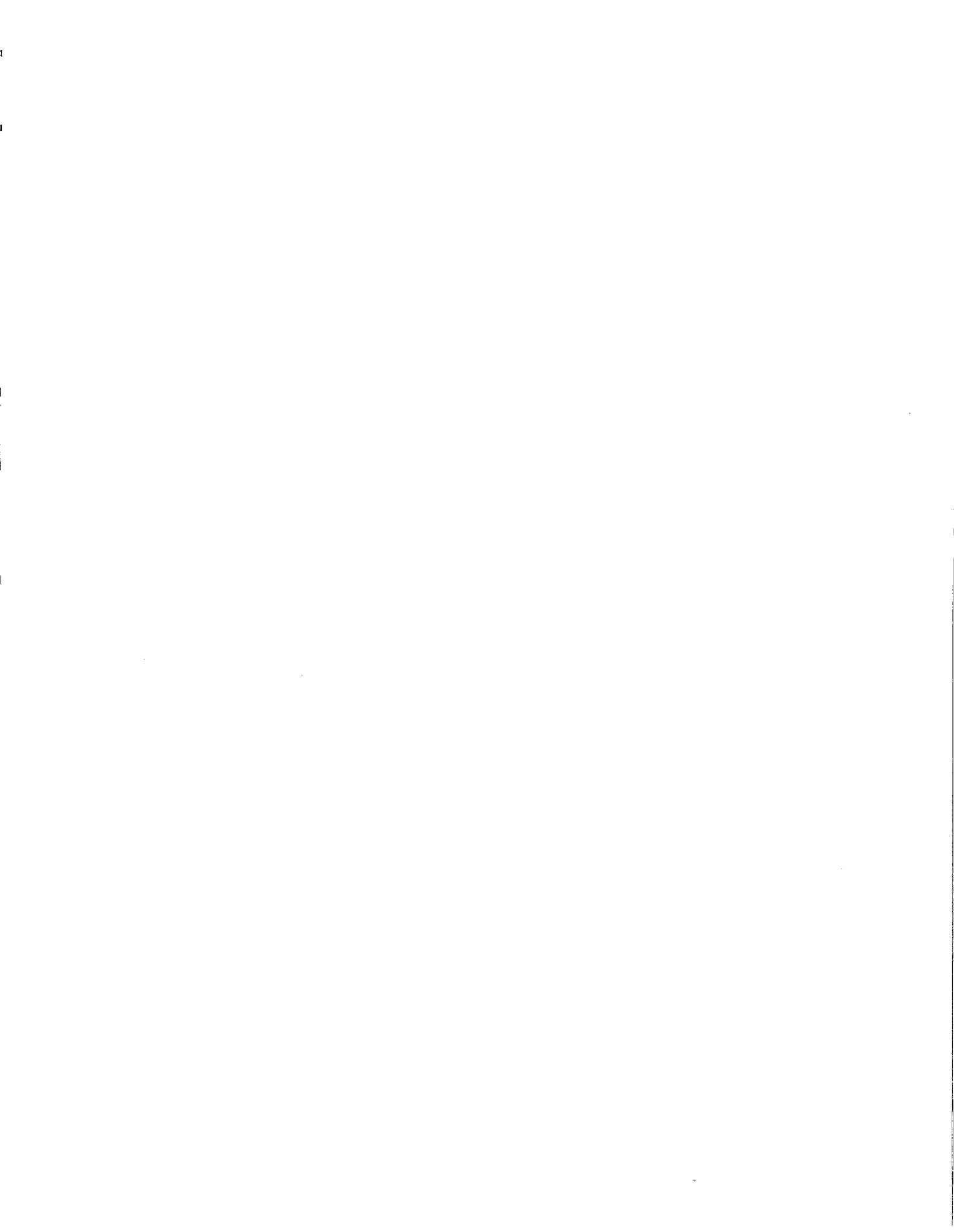
This table is a summary of sales data from the University of Kansas and Kansas State University indicating the number of computers they have sold, to whom, and dollar value of the sales for fiscal years 1988 and 1989.

| Fiscal Year 1988 Type of Purchaser: | University of Kansas | Kansas State University | | | Total Computer Equipment Sales at Both Universities |
|--|---------------------------------|-----------------------------|---------------------------|------------------------------|--|
| | Apple Computer Equipment (b) | Apple Computer Equipment | IBM Computer Equipment | Zenith Computer Equipment | |
| Students: | | | | | |
| Number of Computer Sales | 464 | (c) | 11 | 76 | 551 |
| Dollar Value of Computer Sales | \$ 859,826 | | \$ 16,094 | \$ 105,963 | \$ 981,883 |
| Other Sales (a) | 115,331 | | 3,046 | 8,316 | 126,693 |
| Faculty and University Staff: | | | | | |
| Number of Computer Sales | 80 | (c) | 2 | 68 | 150 |
| Dollar Value of Computer Sales | 160,200 | | 8,751 | 94,573 | 263,524 |
| Other Sales (a) | 25,626 | | 1,462 | 7,375 | 34,463 |
| Departments: | | | | | |
| Number of Computer Sales | 9 | (c) | 0 | 0 | 9 |
| Dollar Value of Computer Sales | 15,364 | | | | 15,364 |
| Other Sales (a) | 2,503 | | | | 2,503 |
| Student Organizations: | | | | | |
| Number of Computer Sales | 2 | (c) | 0 | 1 | 3 |
| Dollar Value of Computer Sales | 2,400 | | | 2,219 | 4,619 |
| Other Sales (a) | 499 | | | 0 | 499 |
| Unknown: | | | | | |
| Number of Computer Sales | 0 | (c) | 0 | 3 | 3 |
| Dollar Value of Computer Sales | | | | 4,597 | 4,600 |
| Other Sales (a) | | | | 503 | 5,100 |
| Total for Fiscal Year 1988 | | | | | |
| Number of Computer Sales | 555 | (c) | 13 | 148 | 716 |
| Dollar Value of Computer Sales | \$ 1,037,790 | | \$ 24,845 | \$ 208,721 | \$ 1,271,356 |
| Other Sales (a) | 143,959 | | 4,508 | 16,194 | 164,661 |
| | \$ 1,181,749 | | \$ 29,353 | \$ 224,915 | \$ 1,436,017 |
| Fiscal Year 1989 | | | | | |
| Type of Purchaser: | | | | | |
| Students: | | | | | |
| Number of Computer Sales | 545 | 47 | 52 | 47 | 691 |
| Dollar Value of Computer Sales | \$ 1,105,874 | \$ 94,518 | \$ 112,609 | \$ 76,532 | \$ 1,389,533 |
| Other Sales (a) | 189,669 | 25,301 | 13,912 | 5,776 | 234,658 |
| Faculty and University Staff: | | | | | |
| Number of Computer Sales | 78 | 9 | 9 | 45 | 141 |
| Dollar Value of Computer Sales | 177,392 | 26,594 | 16,391 | 77,774 | 298,151 |
| Other Sales (a) | 61,028 | 8,583 | 2,672 | 4,462 | 76,745 |
| Departments: | | | | | |
| Number of Computer Sales | 22 | 0 | 0 | 0 | 22 |
| Dollar Value of Computer Sales | 40,166 | | | | 40,166 |
| Other Sales (a) | 10,205 | | | | 10,205 |
| Student Organizations: | | | | | |
| Number of Computer Sales | 1 | 0 | 0 | 2 | 3 |
| Dollar Value of Computer Sales | 1,200 | | | 3,108 | 4,308 |
| Other Sales (a) | 1,090 | | | 65 | 1,155 |
| Unknown: | | | | | |
| Number of Computer Sales | 0 | 0 | 0 | 0 | 0 |
| Dollar Value of Computer Sales | | | | 0 | 0 |
| Other Sales (a) | | | | 774 | 774 |
| Totals for Fiscal Year 1989 | | | | | |
| Number of Computer Sales | 646 | 56 | 61 | 94 | 857 |
| Dollar Value of Computer Sales | \$ 1,324,632 | \$ 121,112 | \$ 129,000 | \$ 157,414 | \$ 1,732,158 |
| Other Sales (a) | 261,992 | 33,884 | 16,584 | 11,077 | 323,537 |
| | \$ 1,586,624 | \$ 154,996 | \$ 145,584 | \$ 168,491 | \$ 2,055,695 |

(a) Other Sales include other types of computer equipment such as printers, keyboards, and disk drives.

(b) The University of Kansas did not sell any other brand of computer equipment.

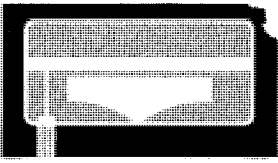
(c) Kansas State University did not sell Apple computer equipment in fiscal year 1988.



APPENDIX B

Agency Responses

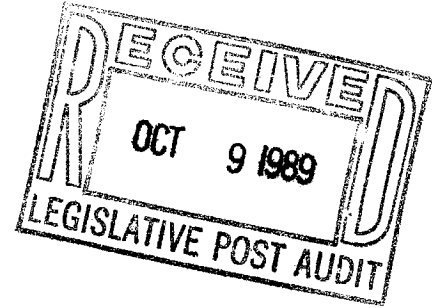
On October 5, 1989, we provided copies of the draft audit report to the Kansas Board of Regents, Kansas State University, and The University of Kansas. Their responses are included in this Appendix.



KANSAS BOARD OF REGENTS

SUITE 609 • CAPITOL TOWER • 400 SW EIGHTH • TOPEKA, KANSAS 66603-3911 • (913) 296-3421

October 6, 1989



Meredith Williams
Legislative Post Auditor
109 West 9th, Suite 302
Topeka, Kansas 66612

Dear Meredith:

Thank you for the opportunity to review a draft copy of the recently completed performance audit, Personal Computer Sales by State University Bookstores. I have no further comments to offer at this time with regard to the text in the report. Ted Ayres, General Counsel for the Board of Regents, will be present when the report is delivered to the Post Audit Committee on October 12, 1989.

Thank you for the opportunity to respond.

Sincerely.

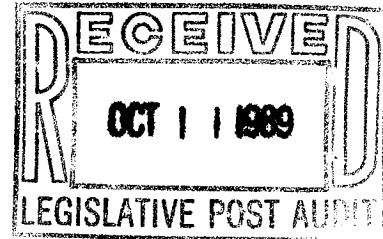
Stanley Z. Koplik
Executive Director



**Office of the Vice President
for Institutional Advancement**

Anderson Hall
Manhattan, Kansas 66506
913-532-5942

October 10, 1989



Meredith Williams
Legislative Post Auditor
109 West 9th, Suite 301
Mills Building
Topeka, KS 66612-1285

Dear Meredith:

Thank you very much for the opportunity to review and respond to the audit report, Personal Computer Sales by State University Bookstores.

With this letter I am transmitting the Kansas State University Union Bookstore response. We will have two individuals representing the Union at the meeting of the Legislative Post Audit Committee in conjunction with the Joint Committee on Economic Development--Jack Sills, Union Director and Kay Farley, Bookstore Manager. Each of these individuals are highly qualified and quite willing to respond to the audit findings.

Kansas State always appreciates any occasion to share the education role and mission of the University. I would also like to thank you for the courtesy of your audit team.

Any further comments or questions please do not hesitate to contact us.

Sincerely,



Pat J. Bosco
Associate Vice President/
Dean of Student Life

dc



K-State Union
Manhattan, Kansas 66506

MEMORANDUM

DATE: October 11, 1989
TO: Pat Bosco
Associate Vice President/Dean of Student Life
FROM: Jack Sills
Director Kansas State Union *Jack Sills*
RE: Audit Report Personal Computer Sales
by State University Bookstore

The purpose of this memorandum is to serve as a response to the Legislative Post Audit performance audit, Personal Computer Sales by State University Bookstore.

We certainly welcome the opportunity for the Division of Legislative Post Audit and the Legislative Post Audit Committee to examine the key role the University Bookstore plays in providing all types of education tools for the students at Kansas State University, including computers.

FINDING: Some Sales Were Not in Compliance with the Bookstores' Contractual Agreements. Neither university fully complied with contract provisions limiting the number of computers students could buy.

RESPONSE: We concur with the audit findings that indicated two individuals purchased two computers within one year. We do wish to indicate that this number represents less than one percent of the 372 computers purchased in the two year period (FY 1988 and 89).

FINDING: In a related issue, we found that officials at the Kansas State University Bookstore were interpreting the new requirements for fiscal year 1990 as allowing faculty, staff, and students to buy an additional Apple computer every two years. Furthermore, we also found some instances at both universities in which students bought computers for student organizations, or faculty or staff bought computers for departments. These types of situations are not spelled out in the universities' contracts, although Apple officials told us that individuals should not be buying computers other than

**K-State Union
Offices**

Administrative
Director
(913) 532-6591
Associate Director
532-6577
Assistant Director
532-6591

Bookstore
532-6583
Business
532-6575
Concessions
532-6588
Copy Center
532-6596
Food Service
532-6580
Information
532-6592
Maintenance
532-6590
Program
532-6571
Recreation
532-6562

for their own personal use under the contracts. Finally, to ensure that the bookstores are not selling individual customers more computers than allowed or making unauthorized sales to departments or organizations, university officials should meet with Apple representatives to clarify these requirements.

RESPONSE: To the above three finds, we are requesting a meeting with Apple Computer officials to discuss and obtain written clarification on the specific requirements of the current contract. In addition, we are in the process of hiring a computer sales advisor. This individual will be responsible for assuring that the bookstore adheres to the restrictions placed on computer sales by manufacturers and for informing sales staff.

FINDING: A small number of students in our samples at both universities either were not enrolled or were not enrolled full-time on the date they purchased their computers.

RESPONSE: The definition of a full-time student that we have been using is the same as defined by the University's comprehensive fee schedule. Any undergraduate or graduate student enrolled in seven or more hours is defined as full-time. Additionally, Graduate Teaching and Research Assistants enrolled in six semester hours are considered full time students.

We concur that four of the seven people identified in the audit as not enrolled or not enrolled full time on the date they purchased their computer were not eligible purchasers. Further examination, however, indicates the other three to be eligible purchasers, either as a faculty member or as full-time students as defined earlier.

FINDING: Eight people who bought computers or related equipment at Kansas State University could not be identified as being or having been students, faculty, or staff.

RESPONSE: A further review of our records indicate five did not purchase computers, but purchased accessories not controlled per manufacturer's contract. We concur that three people may not have been eligible to purchase a computer.

RECOMMENDATIONS:

1. As previously stated, we are requesting a meeting with Apple Computer to clarify requirements.
2. We concur that a current identification card, by itself, is not sufficient proof of eligibility. We are taking immediate action, by working with our Registrar and Personnel Services office, to establish verification procedures.

cf: President Jon Wefald
Vice-President Robert Krause
Assistant Vice-President Tom Schellhardt
Tom Gallagher, Director, University Computing Activities
Sue Peterson, Assistant to President for Governmental Relations

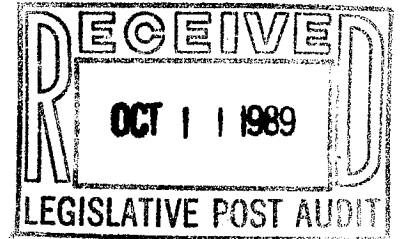
ah

The University of Kansas

Office of the Chancellor

October 10, 1989

Mr. Meredith Williams
Legislative Post Auditor
Legislative Division of Post Audit
109 West Ninth Street
Topeka, Kansas 66612



Dear Mr. Williams:

The University is pleased to have the opportunity to respond to your audit report, Personal Computer Sales by State University Bookstores.

At my request, James Long, Director of the Kansas and Burge Unions, and Michael Reid, Manager of the Kansas Union Bookstore, prepared the attached memorandum responding to the draft report.

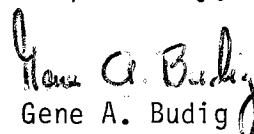
The audit report noted two concerns in regards to computer sales at the University of Kansas. First, the audit noted a small number of individuals were able to purchase two computers which is not approved by the Apple Contract with the Kansas Union Bookstore.

These sales were not intentional, were small in number, and were largely self reported to Apple and members of the post audit staff. They were due to human error. Our systems and procedures have subsequently been improved, with the consultation and approval of Apple. Representatives of Apple have informed us that we have one of the best systems in place on a campus to determine valid purchasers. We will continue to review our efforts with appropriate representatives of Apple to ensure these policies are being properly enforced.

The second concern regards a small number of graduate students who purchased computers while enrolled in six or nine hours of study. Although the Bookstore's policy requires a graduate student be enrolled in twelve hours, this policy is not Apple's nor required by the Apple contract. Apple desires to limit the distribution of computers to full time students. Graduate students are considered full time for purposes of the comprehensive fee schedule if they are enrolled in more than six hours. Because of the confusion apparent in this issue, the Bookstore will meet with representatives of Apple to review and clarify this policy.

Please let us know if you have any further questions.

Respectfully,


Gene A. Budig
Chancellor



THE KANSAS AND BURGE UNIONS

Jayhawk Boulevard
University of Kansas
Lawrence, Kansas 66045-1963

MEMORANDUM

TO: Gene A. Budig, Chancellor
University of Kansas

FROM: James A. Long, Director *JAL*
Kansas and Burge Unions

Michael A. Reid, Manager *MR*
Kansas Union Bookstore

SUBJECT: Report on Personal Computer Sales by State University Bookstores,
October 1989

DATE: October 10, 1989

This memorandum is a written response to the recent performance audit report, Personal Computer Sales by State University Bookstores, prepared by the Legislative Division of Post Audit. This audit was performed at the request of the Joint Committee on Economic Development and the Post Audit Committee of the Kansas Legislature. While this memorandum represents the Kansas Union Bookstore's response, we did share copies of the performance audit with the Office of University Information Resources, the Office of Student Financial Aid and the KU Endowment Association for their review.

The Kansas Union Bookstore concurs with the recommendations drawn in the report as they relate to the operation of the Burge Union Computer Store. We feel it is appropriate and customary, however, to respond to findings and recommendations made in such a report. The purpose of our response is to provide for the Post Audit Committee and the Joint Committee on Economic Development further explanation of our past and current procedures for selling computers to the students, faculty and staff of the University of Kansas. Our response to the report is as follows:

FINDING: Neither university fully complied with contract provisions limiting the number of computers students could buy.

RESPONSE: The Kansas Union Bookstore made 1,201 sales during the past two years, according to the performance audit report. Of these, a small percentage was listed as having purchased two computers. It is important to note that the Bookstore required each individual to sign a statement that they were making a one-time purchase. Each store employee also was instructed to search sales records to verify the eligibility of all customers. During this time, sales records were kept on paper and filed manually. It is apparent that through human error, some records were incorrectly filed.

Other duplicate sales occurred when university staff members assured Bookstore employees that they were making one purchase individually and another for their department using non-state funds. During the post audit review, two of these university staff members admitted making one purchase for themselves and another for members of their family. Another duplicate transaction occurred while Apple representatives were involved in the sales promotion of March-April 1988. In no instance was it found that any individual purchased more than two computers. In addition, no documentation has been found to support the contention that individuals were purchasing computers for further resale to third parties.

The error rate by the Bookstore amounted to 1.3 percent of the total number of sales. We have been told by Apple in the past that our administration of their program is one of the best in the nation of universities participating in the Apple Higher Education Plan. The new computerized record keeping system now used by the Bookstore should significantly reduce the error rate.

FINDING: A small number of students in our samples at both universities either were not enrolled or were not enrolled full-time on the date they purchased their computers.

RESPONSE: It is important to note that the Kansas Union Bookstore did not sell any computers to non-students or non-university faculty or staff. All computers sold by the Bookstore were to students, faculty and staff of the university.

Of the five unauthorized student purchasers noted in the post audit report, one was a graduate student enrolled in only six hours, while the other four were graduate students enrolled in nine hours. Even though these sales were not in accordance with the Bookstore's definition of a full-time graduate student, they were made to full-time students as defined by the university's comprehensive fee schedule. Using the fee schedule definition, any graduate student enrolled in more than six hours would be considered full-time and must pay full-time fees. Although not a defense of the Bookstore's errors, these same students would have been eligible to purchase computers through the Apple Higher Education Plan if the Bookstore had used a more relaxed definition of a full-time graduate student.

The Kansas Union Bookstore has improved its compliance with Apple Computer guidelines by requiring all students to provide a copy of their enrollment schedule as of the date of purchase. This should eliminate the possibility of selling computers to students who are enrolled full-time at the beginning of a semester then drop credit hours to the point that they become part-time students.

From SUMMARY AND CONCLUSION:

Recent changes in the Burge Union Bookstore at the University of Kansas has made should help the Bookstore eliminate ineligible sales, if the procedures are consistently followed.

RESPONSE:

The Kansas Union Bookstore agrees with the summary of the performance audit in that we believe the current computerized sales system will eliminate the chance for sales to unauthorized parties if procedures are correctly followed. The computerized sales system will help reduce the possibility of human error as occurred during the last two years.

From RECOMMENDATIONS:

To ensure that Kansas university bookstores are enforcing the same requirements, officials from each bookstore or other university entity selling Apple computers should meet with representatives of the Apple Corporation to clarify the requirements relating to the frequency of purchase and sales to student organizations and departments. Those requirements should be put in writing so they can be uniformly enforced at each university.

RESPONSE:

The Kansas Union Bookstore fully agrees that a meeting with Apple representatives will help to alleviate confusion about certain aspects of the Higher Education Plan. Most of the problems that have arisen in the past were discussed with Apple representatives; however, some confusion still remains. We look forward to addressing the issues that have surfaced as a result of the audit report and to continuing our participation in the Apple Computer Higher Education Plan.

JAL/MAR/jc

cc: Judith A. Ramaley, Executive Vice Chancellor
David A. Ambler, Vice Chancellor for Student Affairs
Keith L. Nitcher, University Director of Business and Fiscal Affairs
Richard Mann, University Director of Information Resources