

# **COMPLIANCE AND CONTROL AUDIT REPORT**

**FORT HAYS STATE UNIVERSITY  
Fiscal Year 1993**

**A Report to the Legislative Post Audit Committee  
By the Legislative Division of Post Audit  
State of Kansas  
January 1994**

# ***Legislative Post Audit Committee***

## ***Legislative Division of Post Audit***

The Legislative Post Audit Committee and its audit agency, the Legislative Division of Post Audit, are the audit arm of Kansas government. The programs and activities of State government now cost about \$6 billion a year. As legislators and administrators try increasingly to allocate tax dollars effectively and make government work more efficiently, they need information to evaluate the work of government agencies. The audit work performed by Legislative Post Audit helps provide that information.

We conduct our audit work in accordance with applicable government auditing standards set forth by the U. S. General Accounting Office. These standards pertain to the auditor's professional qualifications, the quality of the audit work, and the characteristics of professional and meaningful reports. These audit standards have been endorsed by the American Institute of Certified Public Accountants and adopted by the Legislative Post Audit Committee.

The Legislative Post Audit Committee is a bipartisan committee comprising five senators and five representatives. Of the Senate members, three are appointed by the President of the Senate and two are appointed by the Senate Minority Leader. Of the representatives, three are appointed by the Speaker of the House and two are appointed by the House Minority Leader.

As part of its audit responsibilities, the Division is charged with meeting the requirements of the Legislative Post Audit Act which address audits of financial matters. Those requirements call for two major types of audit work.

First, the Act requires an annual audit of the State's financial statements. Those statements, prepared by the Department of Administration's Division of Accounts and Reports, are audited by a certified public accounting firm under contract with the Legislative Division of Post Audit. The firm is selected by the Contract Audit Committee, which comprises three

members of the Legislative Post Audit Committee (including the Chairman and Vice-Chairman), the Secretary of Administration, and the Legislative Post Auditor. This audit work also meets the State's audit responsibilities under the federal Single Audit Act of 1984.

Second, the Act provides for a regular audit presence in every State agency by requiring that audit work be conducted at each agency at least once every three years. Audit work done in addition to the annual financial statement audit focuses on compliance with legal and procedural requirements and on the adequacy of the audited agency's internal control procedures in areas not covered by the annual audit. These compliance and control audits are conducted by the Division's staff under the direction of the Legislative Post Audit Committee.

### **LEGISLATIVE POST AUDIT COMMITTEE**

Senator Alicia L. Salisbury, Chair  
Senator Anthony Hensley  
Senator Phil Martin  
Senator Lana Oleen  
Senator Todd Tiaht

Representative James E. Lowther, Vice-Chair  
Representative Duane Goossen  
Representative Walker Hendrix  
Representative Sheila Hochhauser  
Representative Ed McKechnie

### **LEGISLATIVE DIVISION OF POST AUDIT**

800 SW Jackson  
Suite 1200  
Topeka, Kansas 66612-2212  
Telephone (913) 296-3792  
FAX (913) 296-4482

The Legislative Division of Post Audit supports full access to the services of State government for all citizens. Upon request, Legislative Post Audit can provide its audit reports in large print, audio, or other appropriate alternative format to accommodate persons with visual impairments. Persons with hearing or speech disabilities may reach us through the Kansas Relay Center at 1-800-766-3777. Our office hours are 8:00 a.m. to 5:00 p.m., Monday through Friday.

# **COMPLIANCE AND CONTROL AUDIT REPORT**

**FORT HAYS STATE UNIVERSITY**

**Fiscal Year 1993**

## **OBTAINING AUDIT INFORMATION**

This audit was conducted by Randy Tongier, Financial-Compliance Audit Manager, and Tom Vittitow, Auditor, of the Division's staff. If you need any additional information about the audit's findings, please contact Mr. Tongier at the Division's offices.

## TABLE OF CONTENTS

### SUMMARY OF AUDIT FINDINGS

#### FORT HAYS STATE UNIVERSITY

Background on Fort Hays State University.....	3
Did Fort Hays State University Adequately Manage Its Revenues and Comply With Applicable State Requirements? .....	4
Recommendations.....	7
Did Fort Hays State University Adequately Manage Its Locally Administered Funds and Comply With Applicable State Requirements? .....	8
Recommendation .....	10
Did Fort Hays State University Provide Central Services In Accordance With Applicable State Requirements? .....	11
<b>APPENDIX A: Agency Response.....</b>	<b>13</b>

## FORT HAYS STATE UNIVERSITY

### Summary of Legislative Post Audit's Findings

Legislative Post Audit conducted compliance and control audit work at Fort Hays State University in partial fulfillment of the Legislative Post Audit Act's requirement that audit work be conducted at each State agency at least once every three years. This compliance and control audit addressed the areas of revenues, locally administered funds, and central services. The period covered by this audit was fiscal year 1993.

**Did Fort Hays State University adequately manage its revenues and comply with applicable State requirements?** With some exceptions, the University adequately managed its revenues and complied with State requirements. The University did not charge the same dormitory fees for like services, accommodations, and meals, as required by State law. In addition, the University did not always transfer receipts from its local bank account to the State Treasury as required by State law. Finally, the University did not have its revenue management procedures in writing, which increased the likelihood that employees responsible for those procedures would not perform them well.

**Did Fort Hays State University adequately manage its locally administered funds and comply with applicable State requirements?** In general, the University managed its locally administered funds adequately and complied with applicable State requirements. As was the case with its revenue management procedures, the University did not have its procedures for handling locally administered funds in writing, which increased the likelihood that employees responsible for those procedures would not perform them well.

**Did Fort Hays State University provide central services in accordance with applicable State requirements?** The University provided central services only to authorized users. In addition, during the most recent five fiscal years, the University's central service clearing fund collected enough revenues to cover its costs.

The report recommends that Fort Hays State University work with the Board of Regents to ensure its compliance with the State's requirement regarding uniformity of dormitory fees charged, transfer receipts from its local bank account to the State Treasury in accordance with State requirements, and put its financial management practices in writing.

We would be happy to discuss these recommendations or any other items in the report with legislative committees, individual legislators, or other State officials.



Barbara J. Hinton  
Legislative Post Auditor



## FORT HAYS STATE UNIVERSITY

The Legislative Post Audit Act requires that audit work be conducted at each State agency at least once every three years. In partial fulfillment of that requirement, the Legislative Division of Post Audit has conducted compliance and control audit work at Fort Hays State University covering fiscal year 1993.

Compliance and control audits identify noncompliance with applicable requirements and poor financial management practices. Although the resulting audit findings usually do not result in significant program improvements or cost savings, they often identify needed improvements that can help minimize the risk of potential future loss or misuse of State resources.

To avoid duplication of audit work conducted as part of the statutorily required audit of the State's financial statements, our audit work generally focused on areas not covered by that audit. These areas included revenues, expenditures, State property, which includes capital outlay items such as office equipment and furniture, and agency purchases exempted from normal purchasing requirements. In addition, we followed up on any prior audit findings and recommendations. This audit addresses the following specific questions:

- 1. Did Fort Hays State University adequately manage its revenues and comply with applicable State requirements?**
- 2. Did Fort Hays State University adequately manage its locally administered funds and comply with applicable State requirements?**
- 3. Did Fort Hays State University provide central services in accordance with applicable State requirements?**

To answer these questions, we identified applicable State requirements by reviewing relevant statutes, administrative regulations, and sections of the Division of Accounts and Reports' Policy and Procedure Manual. We also interviewed agency personnel, reviewed written procedures, and examined related documents to identify the agencies' procedures. We then compared those procedures with the applicable requirements. In addition, we assessed the potential for loss or misuse, and the level of control provided by the University's procedures in preventing and detecting loss or misuse. Finally, we reviewed accounting records, and tested a sample of transactions.

In conducting this audit work, we followed all applicable generally accepted government auditing standards set forth by the U. S. General Accounting Office.

In general, we found that Fort Hays State University adequately managed its revenues and locally administered funds, and complied with applicable State requirements, with a few exceptions. We found that the University did not charge the same dormitory fees for like services, accommodations, and meals, as required by State

law. In addition, the University did not always transfer receipts from its local bank account to the State Treasury as required by State law. Finally, the University did not have its financial management procedures in writing. As a result, the risk that employees would not follow those procedures was increased.

These findings are described following a background section on Fort Hays State University.



## **Background on Fort Hays State University**

Fort Hays State University, located near the City of Hays, was originally the western branch of the Kansas Normal School at Emporia. The University provides for three major programs—education, research, and public service.

The education program's offerings lead to liberal arts degrees at both the bachelor's and master's levels. The University offers applied arts degrees in agriculture, business, elementary education, home economics, industrial arts, physical education, and nursing. In addition, the University provides preparatory professional courses in engineering, dentistry, forestry, law, medical technology, medicine, pharmacy, physical therapy, and theology.

The research program include activities related to the Sternberg Memorial Museum and High Plains Museum, which emphasize research on prehistoric life.

The public service program includes the senior companion program and the continuing education program in nursing.

According to the Governor's Budget, during fiscal year 1993, the University spent \$49 million, including \$25 million for salaries and wages. The Governor's Budget reported that the University had about 650 full-time employee positions in fiscal year 1993.

## **Did Fort Hays State University Adequately Manage Its Revenues and Comply With Applicable State Requirements?**

For fiscal year 1993, we concluded that Fort Hays State University adequately managed its revenues and complied with applicable State requirements, with three exceptions. The University did not have its revenue management procedures in writing. As a result, the risk that employees would not follow those procedures was increased. In addition, the University did not charge the same dormitory fees for like services, accommodations, and meals, as required by State law. Finally, the University did not always transfer receipts from its local bank account to the State Treasury as required by State law. The basis for our conclusions is discussed in the following sections.

### **University Procedures Should Ensure Collection and Deposit of All the Money Due And Compliance With Applicable Requirements**

A State agency's primary objective in managing its revenues is to ensure that it collects and deposits all the money it should. To ensure that the proper amounts of money are collected and deposited, Fort Hays State University should follow a number of basic procedures. These procedures would not only ensure that the University collects and deposits all the money it should, but would also help prevent loss or misuse. The following list includes the basic procedures necessary:

- ◇ The University should establish a system of recordkeeping and reporting, including reconciliations with other State records, that will ensure that amounts due are collected and deposited.
- ◇ The University should ensure that receipts are collected and deposited promptly.
- ◇ The University should put the above policies and procedures in writing to increase the likelihood that employees will follow them.

A State agency also must comply with State requirements applicable to revenues. The following list includes the basic State requirements applicable to the University's revenues.

- ◇ The University should collect fees as authorized by the Board of Regents.
- ◇ The University's local bank for handling revenues should be designated by the Pooled Money Investment Board.
- ◇ The University should use these local bank accounts only for deposit and transfer of receipts to the State Treasury and refunds.
- ◇ The University should deposit and transfer receipts on a timely basis.

## **Our Review and Evaluation of the University's Revenue Procedures Found That the University Had Not Put Its Procedures in Writing**

We reviewed and evaluated the University's procedures for managing its revenues. In particular, we focused on the general Business Office procedures that apply to collection and deposit of all University revenues, and on the specific procedures that apply to collection of the two major types of revenues we actually tested—enrollment fees and dormitory fees.

Based on our review, we concluded that the University's revenue procedures are adequate to ensure that proper revenues are collected and are deposited in the proper funds on a timely basis. However, the University did not have those procedures in writing. As a result, the University's employees were less likely to follow the established procedures. In addition, with no written procedures, a new employee would have more difficulty learning to perform his or her duties well.

## **Our Tests of the University's Procedures Found a Lack of Uniformity in Dormitory Fees Charged and Improper Transfers Of Receipts to the State Treasury**

We tested samples of revenue transactions, including collections of amounts due, deposits in the University's local bank account, refunds of overpayments, and deposits in the State Treasury. In testing these transactions, we determined whether the University collected the correct amounts, recorded the receipts properly, deposited the receipts on a timely basis, refunded receipts only when authorized and in the proper amount, and transferred receipts to the State Treasury in the proper amount and on a timely basis.

Our tests of specific revenues focused on enrollment fees and dormitory fees, which account for about 53 percent of the University's revenues other than transfers among University departments and federal grant moneys. (Federal grant moneys are covered by the annual Statewide audit conducted by a certified public accounting firm under contract with Legislative Post Audit.)

We found that the University had not assessed uniform fees from dormitory residents, nor had it transferred fees to the State Treasurer in accordance with Pooled Money Investment Board requirements, both of which required by State law. These findings are discussed in greater detail in the following sections.

**The University had not assessed uniform fees from dormitory residents.** State law (K.S.A. 76-6a05) requires that university dormitory rentals and boarding fees be uniform for like services, accommodations, and meals. To help ensure compliance with this requirement, the Board of Regents reviews and approves dormitory fee schedules.

In testing dormitory fees, we found that Fort Hays State University has established several incentives to encourage students to reside in its dormitories. These incentives include the following:

- ◇ Students receiving an Awards of Excellence Scholarship are given a \$100 reduction in fees each semester.
- ◇ Students who have graduated from an Ellis County high school are given a one-third reduction in fees. (The amount of this reduction can exceed \$1,000 a year.)
- ◇ Graduate students are given a one-third reduction in fees.
- ◇ Students returning for a third semester and beyond are given reductions in fees ranging from \$41 to \$151 each semester, depending on the circumstances.
- ◇ The University's Athletic Department may award reductions in fees to student-athletes. (The Athletic Department does not provide funds to the dormitory system to make up for the reductions.)

These types of reductions in fees do not seem to be in accordance with the requirements of State law. We contacted the Board of Regents to determine whether these reductions had been approved. The Board indicated that it had reviewed and approved only the basic fee schedule, which did not include the incentives.

**Fort Hays State University did not always transfer receipts to the State Treasury in the manner required by State law.** State law (K.S.A. 75-4215) requires State agencies not located in Topeka to transfer receipts collected to the State Treasury in accordance with a schedule approved by the Pooled Money Investment Board, but not less often than monthly. Such agencies generally deposit receipts collected in a local bank account until they make the transfer to the State Treasury.

During fiscal year 1993, the Board required the University to transfer moneys from its local bank account whenever the account balance exceeded \$375,000. At that time, the University was to transfer all moneys in the account except for a required minimum balance of \$325,000, which was agreed upon between the Board and the local bank. The University was to make the transfer on the next business day, except that an extra day was allowed during enrollment.

In testing for compliance with this requirement, we reviewed two months of local bank account activity. During that time, the University made six transfers to the State Treasury. We found that four of those six transfers were later than required by law, by from one to four business days. We also found that one transfer was larger than called for. As a result, the bank balance was below the minimum balance for almost two weeks, by as much as \$286,000.

### **Recommendations**

To address the concerns identified in its management of revenues, Fort Hays State University should do the following:

1. Put its revenue management procedures in writing to increase the likelihood that these procedures will be properly followed.
2. Work with the Board of Regents to ensure its compliance with the requirements of State law regarding uniformity of dormitory fees charged.
3. Take steps to ensure timely transfer of receipts to the State Treasury as required by State law, and adherence to the State's agreement with its local bank regarding minimum balances.

## **Did Fort Hays State University Adequately Manage Its Locally Administered Funds and Comply With Applicable State Requirements?**

For fiscal year 1993, we concluded that, with one exception, Fort Hays State University adequately managed its locally administered funds and complied with applicable State requirements. The University did not have its procedures in writing. As a result, the risk that employees would not follow those procedures properly was increased. The basis for our conclusions is discussed in the following sections.

### **University Procedures Should Control The Risk of Loss or Misuse and Ensure Compliance With Applicable Requirements**

Locally administered funds are moneys that the University primarily keeps in local bank accounts rather than in the State Treasury. Expenditure of these moneys is made by writing checks on the local bank account rather than by issuing State warrants. The University's locally administered funds comprise its imprest fund, including related petty cash funds, and its organizational safekeeping account.

The imprest fund is used to make small payments that need to be paid faster than they could be paid by using the normal State payment procedures. The University periodically reimburses this fund from its other funds.

In general, the organizational safekeeping account is used for moneys that belong to student organizations. The University administers this account on behalf of those organizations.

A State agency's primary objectives in managing its locally administered funds are to make sure that these moneys are used only for authorized purposes and to protect these moneys from loss or misuse. To accomplish these objectives, the University should follow a number of basic procedures:

- ◇ The University should establish a system of recordkeeping and reporting, including reconciliations with other State records, that will ensure that locally administered fund are properly accounted for.
- ◇ The University should provide adequate security for any moneys on hand.
- ◇ The University should provide for a system of approvals and authorizations to ensure that moneys are used only for proper purposes.
- ◇ The University should ensure that advances from the imprest fund are reimbursed on a timely basis.

- ◇ The University should put the above policies and procedures in writing to increase the likelihood that employees will follow them.

A State agency also must comply with State requirements applicable to locally administered funds. The following list includes the basic State requirements applicable to the University's locally administered funds.

- ◇ The individual funds should be properly established.
- ◇ The local banks for handling locally administered funds should be designated by the Pooled Money Investment Board.
- ◇ The University should use the funds only for the purposes authorized.
- ◇ The University should adhere to any limitations placed on the nature and amount of payments from these funds.
- ◇ The University should adhere to the recordkeeping and reporting requirements of the Division of Accounts and Reports.

### **Our Review and Evaluation of the University's Procedures for Locally Administered Funds Found That The University Did Not Have Its Procedures in Writing**

We reviewed and evaluated the University's procedures for managing its locally administered funds. In particular, we focused on the general Business Office procedures that apply to these funds, as well as the specific procedures that apply to the individual funds we actually tested—the imprest bank account, the three largest petty cash funds, and the organizational safekeeping account.

Based on our review, we concluded that the University's procedures are adequate to ensure proper accountability of the funds and to minimize the risk of loss or misuse. However, the University did not have its procedures in writing. As a result, the University's employees were less likely to follow the established procedures. In addition, with no written procedures, a new employee would have more difficulty learning to perform his or her duties well.

### **Our Tests of the University's Procedures, Records, and Reports Found No Problems**

We tested samples of imprest fund transactions, including payments and reimbursements, reviewed reconciliations of the local bank accounts, and reports submitted to the Division of Accounts and Reports. In doing this testwork, we determined that payments made were proper, advances were reimbursed, and reconciliations and reports were prepared as required.

**Recommendation**

To increase the likelihood that its employees properly follow its established procedures for locally administered funds, Fort Hays State University should put those procedures in writing.



## **Did Fort Hays State University Provide Central Services In Accordance With Applicable State Requirements?**

During fiscal year 1993, Fort Hays State University provided central services only to authorized users. In addition, for the period covering fiscal years 1989 through 1993, the central service clearing fund collected enough revenues to cover its costs. These findings are described in more detail below.

### **The State Requires That University Central Services Be Provided Only to Authorized Users, and That the Services Collect Enough Revenue to Cover Their Costs**

State law (K.S.A. 76-755) specifies that the University's internal services, such as telecommunications and printing, should be provided only to its own departments, other University-related organizations such as the Student Union Corporation, and specific organizations and individuals approved by the Board of Regents. In addition, that law calls for the University's services taken together to be self-supporting, which means that they collect enough revenues to cover their costs.

**The University provided internal services only to authorized users.** We focused our review on the two largest providers of internal services—telecommunications and printing. For each of those services, we reviewed all users for one test month. In addition, we reviewed the Telecommunications Department's current customer list. We identified no unauthorized users.

**During fiscal years 1989 through 1993, the University's central services collected sufficient revenues to cover costs.** Using the University's annual financial reports, we compared total revenues and costs for those central services still in operation during fiscal year 1993. We identified total revenues and total costs of \$6.7 million.



## **Appendix A**

### **Agency Response**

On January 11, we provided copies of the draft audit report to Fort Hays State University. Their response is included as this appendix.

# Fort Hays State University

Office of the President

600 Park Street

Hays, Kansas 67601-4099

January 19, 1993

Barbara J. Hinton  
Legislative Post Auditor  
Merchants Bank Tower  
Topeka, Kansas 66612-2212



Dear Ms. Hinton:

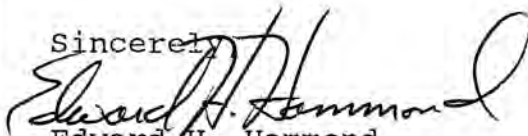
Fort Hays State University has examined the draft of the Legislative Division of Post Audit compliance and control audit report. Our response to each of the items mentioned is summarized as follows:

"Our review and evaluation of the University's revenue procedures found that the University had not put its procedures in writing." **We concur, and will draft a revenue management procedures document.**

"Our tests of the University's procedures found a lack of uniformity in dormitory fees charged." It was recommended that the University should "work with the Board of Regents to ensure its compliance with state law regarding uniformity of dormitory fees charged." **We will work with the Board of Regents staff regarding interpretation of and compliance with K.S.A. 76-6a05.**

"The University did not always transfer receipts to the State Treasury in the manner required by State Law." In reviewing this finding it is our observation that the non-compliant statistics cited were based on the 'deposited' bank balance. Bank and University staff believe transfers are to be made on 'collected' bank balance. The University will take appropriate steps to ensure timely transfer of receipts to the State Treasury.

Sincerely,

  
Edward H. Hammond  
President

Phone (913) 628-4231

FAX (913) 628-4013