

Kansas Board of Regents

Management Review for Fort Hays State University

January 15, 2010



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Section 1: Engagement Summary

Engagement Overview, Scope and Approach

On October 30, 2009, **BKD, LLP** (“BKD”) was engaged by the Fort Hays State University Foundation to perform a management review of Fort Hays State University (the “University” or “FHSU”) at the request of the Kansas Board of Regents (“Regents”).

The key objectives of this engagement were:

1. To review management of all non-public accounts administered or controlled by President Edward Hammond or his direct subordinates for which they have significant discretion or latitude, and
2. To review relationships between the University and its affiliated corporations, with a specific interest in how conflicts of interest are managed.

An analysis of specific accounts and entities identified by the Regents and the University for the period July 1, 2004 through June 30, 2009 was conducted. The identified controlled corporations included:

- Fort Hays State University Athletics Association (“Athletics”)
- Sternberg Museum Foundation (“Sternberg”)

In addition, the following corporations affiliated with, but not controlled by, the University voluntarily participated at the invitation of the Regents:

- Fort Hays State University Foundation, Inc. (“Foundation”)
- Fort Hays State University Alumni Association (“Alumni Association”)

In conducting our analysis, BKD:

- Interviewed President Edward Hammond and other key personnel of the University, Athletics, Sternberg, Alumni Association and the Foundation.
- Analyzed specific account ledgers and performed testing of certain account transactions from such specific account ledgers of the following entities:
 - The University
 - Athletics
 - Sternberg
 - Foundation
 - Alumni Association
- Analyzed Statement of Substantial Interest forms and Conflict of Interest forms for the President and certain of his direct reports.
- Analyzed employment contracts and related documents for various individuals at Athletics.
- Analyzed minutes of meetings of Boards of Directors and various committees for the relevant time period at Athletics, Foundation and the Alumni Association.

- Analyzed audited and unaudited financial statements to identify related party transactions and understand sources of revenue, expenses, assets and obligations shared between University affiliates.

Our services were provided in accordance with the Statement of Standards for Consulting Services promulgated by the American Institute of Certified Public Accountants and, accordingly, do not constitute a rendering by BKD or its partners or staff of any legal advice, nor do they include the compilation, review or audit of financial statements. Because our services were limited in nature and scope, they cannot be relied upon to discover all documents and other information or provide all analyses that may be of importance in this matter. For instance, any procedures we performed cannot be relied upon to give assurance that any defalcations or fraudulent transfers that might have taken place were discovered.

Primary Findings

Since President Hammond began his tenure as the eighth President of Fort Hays State University in 1987, the University has undergone significant changes and experienced considerable growth. According to the President, average class sizes have been reduced, degree programs, including both undergraduate and graduate programs, have been added and buildings throughout campus have been restored. Enrollment has increased from approximately 4,200 (700 virtual students) in 1987 to 10,300 (6,000 virtual students) in 2009. Virtual students, or students who are part of a distance learning program, have increased dramatically as a percentage of total enrollment. Part of this increase is due to the addition of the China program, whereby FHSU partners with universities located in China to offer dual-degree programs. Graduates from this program receive a degree from both the Chinese university as well as FHSU. FHSU has managed to keep in-state tuition relatively low and education quality high. In-state tuition is currently at just under \$100 per credit hour, and over 90% of classes are taught by full-time core faculty.

Looking toward the future, the aim is continued growth without sacrificing quality of education. The President indicated that the University's goal is to grow to 20,000 students by the year 2020, consisting of 12,500 virtual students and 7,500 on-campus students. As part of the growth strategy, the University is looking to expand its overseas initiative into countries other than China.

BKD procedures resulted in no identification of inappropriate disbursements of unrestricted funds by the University or affiliated entities. However, we found that relationships between affiliated corporations need to be more formally documented. The Alumni Association, Sternberg, Athletics and, to a lesser extent, the Foundation, behave as if they are departments of the University. They all have as a common goal, in part, the advancement of the University and have at times entered into transactions with one another in support of that goal. However, as separate legal entities, any transactions among them should be appropriately disclosed, approved and documented allowing for transparency of intent and substance. The failure to do so raises the question of the legitimacy of the transaction, and could lead to disagreements amongst representatives from the various entities. Our report details financial relationships between these entities that did not meet this standard.

Section 2: Engagement Scope and Approach

Objective and Scope

The key objectives of this engagement were to:

1. Evaluate whether financial transactions within the specified accounts that fell under the control of President Hammond or one of his direct subordinates, for the period July 1, 2004 through June 30, 2009, were spent for legitimate business purposes;
2. Evaluate whether these disbursements were appropriately documented and approved; and to

3. Review relationships between the University and its affiliated entities with a specific interest in how conflicts of interest are managed.

Approach

In conducting our analysis, BKD:

- Interviewed key personnel of the University, Athletics, Sternberg, Alumni Association and the Foundation;
- Reviewed specific account ledgers of the University, Foundation, Alumni Association, Sternberg and Athletics and performed testing of certain account transactions;
- Reviewed entity financial audit reports and annual reports for each entity, affiliation agreements, Statement of Substantial Interest forms, conflict of interest and employment contracts and related documents for various individuals; and
- Reviewed minutes of meetings of Boards of Directors and various committees of certain entities.

Interviews

We interviewed the following key personnel:

- **Edward H. Hammond**, President of the University, Chair of the President's Cabinet, Chair of the Facilities Planning Committee, Chair of the Steering Committee for Strategic Planning, Ex-Officio member of the Executive Committee of the Foundation, Ex-Officio member of the Alumni Association Board of Directors
- **Lisa Karlin**, Assistant to the President, Member of the President's Cabinet, Member of the Accessibility for the Disabled Committee, Equal Employment Officer and Chair of the Affirmative Action Committee, Member of the Brand Implementation Team, Member of the Homecoming Coordinating Committee, Member of the University Commencement Committee
- **Larry Gould**, Provost of the University, Member of the President's Cabinet, Chair of the Provost's Council, Chair of the Council for Institutional Effectiveness, Ex-Officio member of the Council on Preparation of Teachers and School Personnel, Member of the Facilities Planning Committee, Chair of the International Education Management Group, Member of the Internationalization Team, Chair of the President's Distinguished Scholar Committee, Chair of the Reassigned Time Committee, Chair of the Sabbatical Review Committee, Member of the Steering Committee for Strategic Planning, Member of the University Commencement Committee, Convener of the University Promotion Committee, Convener of the University Tenure Committee
- **Mike Barnett**, Vice President for Administration & Finance, Member of the President's Cabinet, Member of the Crisis Management Team, Member of the Critical Incident Management Group, Chair of the Employee Tuition Assistance Committee, Member of the Facilities Planning Committee, Member of the Integrated Enrollment Management Committee, Member of the Steering Committee for Strategic Planning
- **Tisa Mason**, Vice President for Student Affairs, Member of the President's Cabinet, Member of the Crisis Management Team, Member of the Critical Incident Management Group, Member of the Facilities Planning Committee, Member of the Residence Classification Appeals Committee, Member of the Retention Committee, Member of the Strategic Committee for Strategic Planning

- **Phil Toepfer**, Controller of the University, Member of the President's Cabinet, Non-Voting Secretary/Treasurer of the Athletic Advisory Board, Member of the Student Publications Board, Member of the Traffic Committee
- **Curtis Hammeke**, Director of Athletics, Member of the President's Cabinet, Non-Voting member of the Athletic Advisory Board, Member of the Homecoming Coordinating Committee, Member of the Integrated Enrollment Management Committee, Ex-Officio member of the Alumni Association Board of Directors
- **Kent Steward**, Director of University Relations, Member of the President's Cabinet, Chair of the Brand Implementation Team, Coordinator of the Crisis Management Team, Member of the Critical Incident Management Group, Member of the University Commencement Committee
- **Gary Brinker**, Director of Fort Hays State University's Docking Institute of Public Affairs
- **Todd Powell**, General Counsel and Executive Assistant to the President, Member of the Crisis Management Team, Member of the President's Cabinet, Coordinator of the Critical Incident Management Group, Member of the International Education Management Group
- **Anna Debes**, Internal Auditor of the University
- **Reese Barrick**, Director of the Sternberg Museum Foundation
- **Debra Prideaux**, Executive Director of Alumni and Governmental Relations, Member of the President's Cabinet, Member of the Homecoming Coordinating Committee, Member of the University Commencement Committee
- **Tim Chapman**, President and Chief Executive Officer of the Foundation, Member of the President's Cabinet, Ex-Officio Member of the Awards and Recognition Committee, Ex-Officio member of the Alumni Association Board of Directors
- **Francine Hestermann**, Chief Financial Officer of the Foundation

Section 3: Findings and Recommendations

University Accounts

Scope

Certain accounts held at the University have authorized signers that are given significant latitude in determining what expenses can be paid with funds in these accounts. These accounts are not funded with monies provided by the State of Kansas and, as such, are not reviewed by an outside entity on a regular basis. We identified three such accounts during our review: SA3006 – President's Discretionary Account, SA1104 – Investment Income Account and SA3005 – Kansas Cavalry Account. Our review of these University Accounts involved interviewing Phil Toepfer, Controller, Mike Barnett, Vice President for Administration & Finance and Edward Hammond, President. We tested 66 disbursement transactions for authorization consistent with established policy and for appropriateness of business purpose. We also reviewed unaudited financial statements for the University for fiscal years 2005 through 2009.

Findings and Recommendations

In general, the documentation provided for the 66 transactions selected was good. Although all transactions were properly authorized, six transactions were missing at least one original receipt. One of these six disbursements included a double payment. The disbursement was for reimbursement to a University employee who had incurred numerous travel expenses for which she had provided a large number of receipts. In the reimbursement request, the listing of expenses incurred included two items with identical dates, amounts and descriptions. A receipt was provided for one, and a missing receipt form was provided for the other. The entire reimbursement was paid by the University, resulting in a double payment of approximately \$200 portion. University personnel have reviewed this transaction and agree that this was a double payment. University personnel have also indicated that reimbursement will be sought. We recommend the University seek reimbursement.

Kansas Cavalry Credit Card

A pass through credit card account for “Kansas Cavalry¹,” a civic organization unrelated to the University of which President Hammond is an officer, is being held at the University. Reportedly, Kansas Cavalry was unable to obtain a credit card in its own name. When the organization wishes to use the credit card, it first sends money to the University, which deposits the funds. Then, the organization uses the credit card and the University pays the bill with the funds provided by the organization. Use of this account has decreased over the last five years. For each of FY05, FY06, FY07, FY08 and FY09, the total paid out for the credit card has been approximately \$5,500, \$9,800, \$1,800, \$2,200 and \$700, respectively. This arrangement originated as President Hammond is an officer of the organization. However, President Hammond declined to take on this arrangement personally. We recommend the University review this arrangement and consider the potential risks associated with holding this credit card to determine whether or not the University should continue with this arrangement as it is unrelated to the University or its operations.

Athletics Department

Scope

Our work at Athletics involved interviewing Curtis Hammeke, Director of Athletics. We reviewed Athletic Association Advisory Board minutes for the period under review. We tested 109 Athletics disbursement transactions for authorization consistent with established policy and for appropriateness of business purpose. We also reviewed employment contracts and related documentation for the Director of Athletics, men’s and women’s head basketball coaches and the head football coach.

Overview

Athletics is a 501(c)(3) organization, legally separate from the University. However, Athletics operates as a department of the University and is subject to all of the regulations and administrative policies of the University. Athletics operates the varsity intercollegiate athletics programs at the University in facilities that are owned by the University. Most coaches’ salaries are paid with state funds. Neither the Athletic Director nor any of the coaches have any personal corporations through which any compensation is received. Primary sources of revenues and support for the program are student activity fees, ticket sales, concessions, marketing revenue from advertising spots and donations.²

¹ Kansas Cavalry is a volunteer group of business leaders who promote Kansas as a business location, in conjunction with the Kansas Department of Commerce.

² According to the Athletics Director

In conjunction with our review of selected employment contracts within Athletics, we inquired about the process for hiring coaching staff and negotiating their compensation. The President indicated that while he authorizes each contract, he grants significant latitude to the Athletic Director during the hiring process and assists the Athletic Director only as needed. Contracts are generally for a one year period of time.

Findings and Recommendations

The documentation for disbursements at Athletics was, in general, very good; however, it does not appear that portions of the Athletics disbursement policy are followed. Pursuant to that policy, all disbursements are to be supported by itemized receipts and purchases over a certain dollar threshold are required to be bid. The pre-authorization of the Director of Athletics or his designee is required before entering into any purchase, and the Director of Athletics' authorization is required a second time on the final invoice before any payment can be made. Additionally, any cash advances must be approved by the Director of Athletics prior to distribution. Of the 109 transactions selected, the following exceptions were noted.

- Seven transactions had at least one missing receipt, three of which related to cash advances.
- Ten transactions had at least one non-itemized receipt.
- Two transactions had both at least one missing receipt and at least one non-itemized receipt.
- Three transactions contained support, which was a handwritten note detailing the transaction rather than a receipt from the vendor.
- Two cash advances' included support that indicated the funds were ultimately given to student activity participants as meal per-diems; such a transaction is required to have a signature sheet with signatures of each student activity participant who received a per diem. For each of these cash advances, at least one such sheet was missing.
- Eight transactions were large enough to require bidding, but included no evidence that the bid process took place.
- Ninety-three (93) transactions did not contain Director of Athletics' approval.
- No transactions had pre-authorization of the Director of Athletics, including distributions for cash advances.

We recommend that Athletics either adhere to their disbursement policy or consider reviewing and modifying their policy to better fit their needs, without sacrificing the control the policy provides.

Lack of Affiliate Agreement

The University from time to time will pay for certain Athletics related expenses such as cheerleader's uniforms and cheerleaders' attendance at post-season games. Also, the University provides certain administrative services such as payroll processing and network services to Athletics free of charge. There is no memorandum of understanding or similar document outlining these relationships. Recommendations regarding this issue are discussed later in this report.

Conflict of Interest Documentation

Coaches' contracts include a check-box which indicates that the coach has no conflicts of interest to report, and a second check box which indicates that the coach does have a conflict of interest to report. Of the 21 contracts reviewed, four had neither box checked. All four related to a single coach who is no

longer employed at Athletics. We recommend that every coach's contract be reviewed for completeness prior to authorization.

Sternberg Museum Foundation

Scope

Our work at the Sternberg Museum Foundation involved interviewing Reese Barrick, Director. We requested Board of Directors minutes for the fiscal years ended June 30, 2005 through 2009, but none could be located by Sternberg personnel. We were told by the Vice President of Administration and Finance that no meetings were held during that time period. We also tested 32 Sternberg disbursement transactions for authorization consistent with established policy and for appropriateness of business purpose.

Overview

The Sternberg Museum Foundation is a 501(c)(3) organization, legally separate from the University. It exists to support the Sternberg Museum of Natural History. The Sternberg Museum of Natural History, founded in 1994, operates as a department of the University, but has existed in one form or another since the early 1900's. The Sternberg Museum has a full-time staff of seven, five of which are paid by the University. The remaining two full-time employees are paid with funds from the Sternberg Museum Foundation. Wages for a variable number of graduate students are also paid out of the Sternberg Museum Foundation. The number of graduate students employed at any one time depends on funds available and museum needs. Various other expenses related to the Sternberg Museum of Natural History are also paid out of the Sternberg Museum Foundation.

Findings and Recommendations

There were no findings in our selection of 32 disbursement transactions at Sternberg.

Board of Director Meetings

According to the Director of Sternberg, The Board of Directors of Sternberg is required to meet annually. As the current Director had only been with the organization for a few months as of the time of our interview, he had not yet participated in any such meetings. The Director indicated that he would like to see the Board meet quarterly, if not more frequently. We recommend the Board meet at least annually, as required, and prepare and maintain minutes for these meetings.

Lack of Affiliate Agreement

We noted that payroll services and miscellaneous other services are provided to Sternberg by the University free of charge. We noted that no formal affiliation agreement or memorandum of understanding currently exists to define this relationship between the Sternberg Museum Foundation and the University. Recommendations regarding this issue are discussed later in this report.

Fort Hays State University Foundation

Scope

Our work at the Foundation involved interviewing Tim Chapman, President and Chief Executive Officer and Francine Hestermann, Chief Financial Officer. We tested 123 Foundation disbursement transactions for authorization consistent with established policy and for appropriateness of business purpose. We reviewed the minutes of the meetings of the Board of Trustees and the Executive Committee for the period under review. We also analyzed the Foundation's fiscal year-end audited financial statements for fiscal years 2005 through 2008, as well as the draft of the audited financial statements for 2009.

Overview

The Foundation is a 501(c)(3) organization, legally separate from the University. It exists to support and advance the University. The Foundation strives to prudently manage various aspects of the donation and disbursement process in accordance with donors' wishes. Essentially, the Foundation is in charge of fundraising for the University.³

The Foundation maintains custody of and invests both restricted and unrestricted funds donated to the University. The disbursement transactions tested for authorization and appropriateness of business purpose were chosen out of a pool of discretionary funds with significant latitude on the part of President Hammond or one of his direct reports in the types of expenditures allowed to be paid. Determination of appropriateness of disbursements out of funds held at the Foundation is under the purview of the Foundation.

Findings and Recommendations

The documentation for disbursements out of Foundation accounts was, in general, excellent. For a payment to be processed, a disbursement request form is required, which includes all of the basic information relating to the payment, as well as an explanation of the purpose of the payment. Also included on this form are two signature lines. Only certain individuals are authorized to sign disbursement requests for specific accounts, and in some instances, two signatures are required. As support for these disbursement requests, original invoices or receipts are required. For payments made with a credit card, the credit card statement itself is deemed insufficient and the receipt from the vendor paid via the credit card is required. We noted the following documentation exceptions out of the 123 disbursements tested.

- Two disbursements were missing original receipts. One of these disbursements included a credit card statement as support.
- One disbursement was missing a required second signature.
- One disbursement was missing the check request and original receipt.

For each of these expenditures, there appeared to be a legitimate business purpose, based upon the available documentation. We recommend the disbursement policies of the Foundation be followed.

Lack of Affiliate Agreement

The University began providing the Foundation with \$50,000 per year for operating expenses in fiscal year 2009. For fiscal year 2010, the President has committed to providing the Foundation with an additional \$50,000, for a total of \$100,000 in fiscal year 2010, out of his discretionary funds to help with operating expenses. This decision to provide the Foundation with an additional \$50,000 was made only after the Foundation considered implementing an administrative fee on incoming donations, and was intended to allow the Foundation to continue operating without implementing such a fee. No formal agreement exists outlining either the annual funding provided by the University to the Foundation or the commitment for the additional 2010 funding. Recommendations regarding this arrangement as well as other arrangements between the related entities are made in a later section of this report.

³ According to <http://www.fhsu.edu/foundation/about/foundation.php>

Housing of Bahcesehir University Students

FHSU and Bahcesehir University (“BU”), located in the country of Turkey, entered into an Agreement dated May 26, 2006. The agreement indicated that 50 students and three faculty would be sent from BU to FHSU as part of an English as a Second Language Program at FHSU. FHSU agreed to house these 53 individuals in Stadium Place Apartments, which is a student housing facility located on FHSU’s campus and managed by FHSU, but privately owned by a company in which a significant donor of the University has a significant ownership interest.⁴ The May 26, 2006 Agreement indicated these students would be housed in Stadium Place Apartments from August 1, 2006 through July 31, 2007. Housing reservations were made by the University for these 53 individuals.⁵

Initially, only 32 BU students and faculty came to FHSU, which created a shortfall of 21 individuals for the fall semester. That shortfall was partially covered in the spring semester, as eight students moved in over winter break, leaving 13 of the beds initially reserved for BU unoccupied.⁶ President Hammond indicated that this shortfall caused the owner of Stadium Place Apartments to incur a financial loss from lost rent. Based on the figures contained in the May 26, 2006 Agreement, the rent which would have been paid by 21 individuals from August 2006 through December 2006 and 13 individuals from January 2007 through July 2007 approximated \$86,240.⁷

On March 14, 2007, the Foundation made a \$50,000 payment to the owner of Stadium Place Apartments related to this shortfall. This payment was made out of the President’s discretionary funds held at the Foundation. This was done only after the Foundation President sought legal counsel regarding the appropriateness of the use of Foundation funds for this purpose. Outside legal counsel indicated it was appropriate to use Foundation funds to satisfy a liability of the University. It is unclear how the amount of \$50,000 was determined. President Hammond believed this amount was based on an unpaid down payment amount specified in the Agreement between BU and FHSU.⁸ We recommend that anytime the University or any of the related companies enter into significant financial transactions with substantial donors or other entities with considerable relationships with the University or any of the related companies, it consider applying a higher level of scrutiny and transparency to the transaction. For example, in this situation, documentation of the discussions amongst University personnel, including general counsel, as well as documentation of the calculation of the estimated liability and the comparison to the actual payment would add credence to the payment.

Furthermore, there is no written agreement between FHSU and the owner of Stadium Place Apartments outlining the \$50,000 payment made to the owners of Stadium Place Apartments. We recommend the University consider detailing this transaction in a written agreement to be signed by representatives from

⁴ The University needed additional student housing in 2004 and opted to enter into an arrangement with a private company whereby the company would build and own the apartments for a period of time, and then gift the apartments, rents and profits to the University at the end of that period of time. According to President Hammond, this project went out for bid, and the best bid was selected. The fact that one of the bidders was a significant donor had no bearing on the decision, according to the President. The rents and profits related to the apartments are to be gifted to the University no later than September 1, 2015, and the apartments are to be gifted to the University no later than September 1, 2025.

⁵ According to a May 31, 2006 email from the Director of Residential Life to the Provost.

⁶ According to the Assistant Vice-President of Student Affairs of the University.

⁷ This is calculated by adding the lost rent due to the shortfall in the fall semester to the lost rent due to the shortfall in the spring semester. The fall lost rent was computed by multiplying the shortfall of 21 individuals by the monthly rent of \$440 per individual, as set in the Agreement, by five months. The spring lost rent was calculated by multiplying the shortfall of 13 individuals by the monthly rent of \$440 per individual by seven months. The length of the Agreement was 12 months.

⁸ The May 26, 2006 Agreement between BU and FHSU included two payments of \$50,000 to FHSU by BU. The first \$50,000 was received by FHSU and paid to the owners of Stadium Place Apartments as prepaid rent according to President Hammond. The second \$50,000 was to be paid by BU to FHSU by no later than the end of June 2006. However that payment was never received.

both the University and the owner of Stadium Place Apartments, to document that the liability has been paid. We recommend the University and the affiliated entities obtain signed contracts for all financial obligations into which the University or any of the affiliated entities enter.

Travel Expenses to China

For each of the years included in the period reviewed, the President, along with a delegation of anywhere from four to 13 additional individuals, traveled to China at the end of each school year to attend commencement ceremonies at the various Chinese universities at which FHSU offers dual-degree programs. Each delegate is classified as either a University member or a guest. University members are considered to be on official University business. Rather than each member of the delegate booking their own travel, a centralized process is utilized whereby the University pays a single bill for all flights, hotels, meals and transportation for the entire delegation, and the guests are to reimburse the University for their portion of the bill. The reimbursement must be made directly to the University, rather than through the Foundation where a charitable contribution receipt would be issued. However, we noted one instance where two guests, a husband and a wife, paid for their portion of the bill through the Foundation rather than directly to the University. This creates a potential tax issue because the donors are also the direct recipients of a benefit. It is recommended that the Foundation consider seeking a written tax opinion regarding any possible tax liability on the part of the Foundation for this past transaction. In order to help prevent a similar situation in the future, we also recommend that the Foundation consider implementing an internal control that would address this issue. One such control would be to maintain a listing of past and current China Delegation guests and review this listing prior to receipting donations into the President's Venture Fund.⁹

Tax Deductible Receipting of Pepsi Contract Payment

We noted that as part of an Athletics contract with Pepsi, Athletics receives \$10,000 from Pepsi annually. Because this is part of a contract, it does not appear to be a charitable contribution. However, with the exception of FY09, each previous year the Foundation had received and issued a charitable contribution receipt for these funds, then forwarded the funds on to Athletics. It is recommended that the Foundation consider seeking a written tax opinion regarding any possible tax liability on the part of the Foundation for this past activity.

Tiger House

One of the universities in China with whom FHSU offers a dual-degree program hired FHSU's architect to help with the design and build of an on-campus house, the Tiger House, which would be used by FHSU personnel. The University's architect designed the Tiger House, but was unable to travel to China to oversee its completion. Therefore, the Chinese university specifically requested the President's brother to oversee the design of the new building.¹⁰ A representative of the Chinese university had visited the President's house on FHSU's campus, and was impressed with the remodeling/design work that had been done there under the direction of the President's brother. The President, with funds from his Venture Fund, paid for the approximately \$3,100 round-trip flight for his brother to travel to China for this project. All other expenses incurred by the President's brother were funded by the Chinese university. Although this transaction does not appear to be inappropriate, we recommend that any future payment for the benefit of the President's family members be formally approved by the Foundation President to avoid any appearance of impropriety.

⁹ The President's Venture fund is a fund held at the Foundation over which the President has significant control and latitude regarding the use of the funds.

¹⁰ According to the President of the University.

Alumni Association

Scope

Our work at the Alumni Association involved interviewing Debra Prideaux, Executive Director of Alumni and Governmental Relations. We tested 42 Alumni disbursement transactions for authorization consistent with established policy and for appropriateness of business purpose. We reviewed the minutes of the meetings of the Board of Directors for the period under review. We also analyzed the Alumni Association's audited financial statements for fiscal years 2005 through 2009.

Overview

The Alumni Association is a 501(c)(3) organization, legally separate from the University. It coordinates its efforts with the University and reports to the Executive Director of Alumni and Governmental Relations. The Alumni Association exists to develop and facilitate relationships between the University and its alumni, faculty, friends, staff and students.¹¹

All wages and salaries of the Alumni Association are paid by FHSU. The University also pays the Alumni Association's rent. The programming activities of the Alumni Association are funded through commissions, dues, book sales, contributions, advertising in the Alumni newsletter and various other revenue streams. Its spending is primarily on Alumni programs and events including a variety of events at homecoming, Alumni club meetings and the Alumni newsletter.

Findings and Recommendations

The documentation at the Alumni Association was, in general, good. Of the 42 disbursement transactions selected, all appeared to be for legitimate business purposes, and all but six adhered to policy. One disbursement had missing receipts and the remaining five were all payments to the University, which either were inadequately supported by documentation and/or were missing receipts. Over the course of the year, the University pays for certain of the Alumni Association's expenses, including printing and postage provided by University facilities and certain travel expenses incurred by the Alumni Association. Periodically, the University will bill the Alumni Association for the accumulation of these expenses, and the Alumni Association will issue a check to the University in payment. Payments selected ranged from approximately \$3,500 to \$17,000. We noted the following deficiencies in the documentation provided for such transactions.

- Insufficient documentation regarding postage, which led to the inability to agree the receipts provided to the total payment made to the University.
- At least one receipt was missing for two of the five transactions.

We recommend the Alumni Association consider working with the University to identify alternative support for postage so that the Alumni Association can verify that it is being charged appropriately, and so proper documentation of the transactions can be kept on file at the Alumni Association. We also recommend the Alumni Association follow all other disbursement procedures it has in place.

Lack of Affiliate Agreement

While the Alumni Association is legally a separate entity from the University, the University provides the Alumni Association with significant funding for which inadequate documentation is maintained. As an example, the University provided the Alumni Association with an interest-free loan in the amount of \$30,000 to print books that it sells to the public. As books are sold, the loan is repaid. The loan is shown as a liability on the financial statements of the Alumni Association. No formal agreement exists

¹¹ According to <http://goforthaysstate.com/s/947/start.aspx>

regarding this loan. Recommendations regarding the funding provided by the University to the Alumni Association will be made in a later section in this report.

The Alumni Association serves as the database manager of the University for information regarding alumni and friends of the University. The Foundation, Athletics, Sternberg and the University itself can use the information in this database free of charge. The Foundation pays for certain maintenance and software related to this database as a loosely structured reimbursement for these services. No formal agreement exists to define these relationships. Further, no memorandum of understanding or similar document exists defining the relationships between the Alumni Association and the other related entities. Recommendations regarding this issue are discussed later in this report.

Alumni Association Vehicle

The Alumni Association leases a vehicle that is used by the Executive Director and other Alumni Association staff for 100% business use, according to the Executive Director. However, no mileage logs are kept. We recommend the Alumni Association consider keeping mileage logs which clearly indicate the business purpose of each trip.

Conflict of Interest Form Completion

We noted that the Conflict of Interest form completed by the Executive Director was not completely filled out. A single yes/no style question was not answered. The form was otherwise complete and signed by both the Executive Director of the Alumni Association and Governmental Relations, as well as the President of the University.

Relationships Between Affiliated Entities

We noted that while Athletics, the Alumni Association, Sternberg and the Foundation are all not-for-profit 501(c)(3) organizations, legally separate from the University, they all have significant financial and non-financial relationships with the University. With the exception of the Foundation, these entities are viewed as departments of the University by the President of the University, and appear to operate as departments. All employees at the Alumni Association are paid by the University and most employees at Athletics and Sternberg are paid by the University. Operational funding is also provided by the University for these organizations. Additionally, the University has provided or committed to provide annual funding ranging from \$50,000 to \$100,000 to the Foundation in recent years. However, with two exceptions,¹² there are no formal agreements between these entities which detail these transactions. We recommend all transactions between Alumni, Foundation, Athletics, Sternberg and the University be formalized with regard to structure, accountability and transparency. The failure to do so raises the question of the legitimacy of the transaction, and could lead to disagreements amongst representatives from the various entities. We recommend the University and its affiliated corporations consider implementing formal, documented approval processes to ensure that all transactions are appropriately vetted prior to being recorded.

¹²The Foundation owns the Robbins Center, which is where both the Foundation and the Alumni Association are housed. The Co-Occupancy Agreement by and between the Foundation and the Alumni Association dated December 10, 2007 outlines this relationship, indicating that Alumni is to reimburse Foundation for its share of operating costs, based on a percentage of usable building space occupied by Alumni. A second agreement related to the Robbins Center exists, which indicates the University will provide certain services to the Robbins Center such as water services and trash hauling, but the cost of these services will be billed to the Foundation. This is outlined in the Agreement for Services between Fort Hays State University and Fort Hays State University Foundation dated September 1, 2007.

According to the President, the not-for-profit statuses of Athletics, the Alumni Association and Sternberg were originally obtained so that each could raise and manage their own funds. Over time, the Foundation has assumed more responsibility regarding the fundraising and handling of funds raised for these organizations and the not-for-profit status is not as significant to these organizations as it has been in the past. We recommend that the legal structure of Athletics, the Alumni Association and Sternberg be reviewed for appropriateness.

Conflict of Interest Policies and Review

The University has an extensive Conflict of Interest Policy which requires annual reporting of potential conflicts of interest by employees. According to this policy, a reporting form is to be completed annually by the employee, be submitted to the chief academic officer or the appropriate vice president through the approved chain of custody and be maintained in the individual personnel files. However, the University currently obtains reporting forms for new employees only, and has a checkbox directly on the notice of appointment form which asks the employee whether or not there are additional items to report relating to conflicts of interest. The conflict of interest forms and the notice of appointment forms are reviewed by the employee's reporting office, which could be an office of a Vice President, Provost or the President. All affiliated corporations, with the exception of the Foundation, follow this procedure and report to either the office of the President or an office of a Vice President or Provost. We recommend the University follow the Conflict of Interest Policy as it is written, which requires an annual reporting form to be completed.

The Foundation has a Conflict of Interest Policy; however, it only addresses conflicts of interest on the part of Trustees. We recommend the Conflict of Interest Policy be expanded to include all employees, as well as consider additional language relating to conflicts of time.

The Alumni Association, Sternberg and Athletics do not have conflict of interest policies. However, the Bylaws of the Alumni Association do include a section that addresses conflicts of interest related to Board Members and calls for immediate disclosure of potential conflicts. We recommend that each entity consider implementing a formalized Conflict of Interest Policy that is approved by its Board of Directors.

Fractional Employees

Fractional employees are employees that spend part of their time working for more than one separate legal entity. These types of employees typically should be compensated pro-rata by each entity for which they work, and this percentage split should be monitored, at a minimum, on an annual basis. For example, certain coaches at Athletics are also professors of the University. The contracts these individuals identified this split, and it appeared the split was based on time spent working for each entity.

However, not all fractional employees are recognized as such. The Executive Director of Alumni is an employee of the University, but appears to spend the majority of her time on Alumni Association business. As the Alumni Association is a separate legal entity, apart from the University, we recommend the University consider identifying the percentage of her time spent for the benefit of the Alumni Association and cause the Alumni Association to compensate her as appropriate. Her contract with the University should recognize the division of her time, similar to the process used for coaches discussed above.

Conclusion

BKD procedures resulted in no identification of inappropriate disbursements of unrestricted funds by the University or affiliated corporations of the University. Although interviews of executives throughout the University reflected an awareness of the necessity to identify and manage potential conflicts of interest, some transactions between affiliated corporations need to be documented in a more formal manner to ensure that the intent and substance of all inter-entity transactions are transparent.

All University personnel were responsive and helpful in regard to BKD's requests for documents, interview time and additional explanations. Records were retrieved quickly and were well organized. BKD would be delighted to make its project team available to discuss any of the findings and recommendations in this report. This firm also welcomes discussion with the Kansas Board of Regents or University personnel about ideas for supporting the University's objectives in this subject area prospectively.