



FORT HAYS STATE UNIVERSITY

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OFFICE OF THE PRESIDENT

January 8, 2010

Regent Jill Docking
Chairperson
Kansas Board of Regents
1000 SW Jackson, Suite 530
Topeka, KS 66612

Dear Regent Docking:

The purpose of this letter is to respond to the management review of Fort Hays State University by BKD, LLP. We appreciate the very professional manner in which BKD's accounting team conducted the recent review of Fort Hays State University and its affiliated entities. Even though this process was interrupted by a major snow storm and the holidays, BKD completed its task in a timely manner. The University and its affiliated entities were not surprised that this process resulted in "no identification of inappropriate disbursements." We appreciate greatly the observations, recommendations, and suggestions, and in many instances, remedies to the findings are already underway. We were especially pleased by the fact that, in general, the documentation provided for all transactions was judged to be good or excellent.

The following represents Fort Hays State University's response to all of the recommendations contained in the BKD Management Review and Audit:

Recommendation # 1: The University seek reimbursement for the double payment of approximately \$200. (page 6)

FHSU Response: The University will be reimbursed by the individual who received the duplicate payment within 30 days.

Recommendation # 2: That the University review the arrangement with the Kansas Cavalry and consider the potential risks associated with holding this credit card. The review should also determine whether or not the University should continue with this arrangement as it is unrelated to the University or its operations. (page 6)

FHSU Response: Kansas Cavalry is associated with the Kansas Department of Commerce. The funds must be deposited to the University account prior to use of the credit card, and the risk of loss to the University is minimal. Therefore the University will continue its relationship with the Kansas Cavalry as per its request. Past use of the card has been minimal.

Recommendation # 3: That the Athletic Department adhere to its disbursement policy or consider reviewing and modifying the policy to better fit their needs, without sacrificing the control the policy provides. (page 7)

FHSU Response: Policies will be reviewed and procedures brought into compliance. As part of the review, changes may be recommended that improve procedures while maintaining an appropriate level of internal control. All changes must be approved by the Board of Directors. Projected completion date for the review is June 30, 2010.

Recommendation # 4: It is recommended that every coach's contract be reviewed for completeness prior to authorization. (page 8)

FHSU Response: The University agrees with the recommendation. The current process includes the review recommended, but one person failed to check the conflict of interest box. Responsibility for this review falls to the athletic director and the vice president for administration and finance. A more thorough review will begin immediately.

Recommendation # 5: It is recommended that the Board of Directors of the Sternberg Museum meet at least annually, as required and prepare and maintain minutes for those meetings. (page 8)

FHSU Response: The University agrees. A schedule is currently being developed for at least two meetings per year beginning March 31, 2010. Minutes will be maintained.

Recommendation # 6: It is recommended that the disbursement policies of the FHSU Foundation be followed. (page 9)

FHSU Foundation Response: The Foundation reports that it will follow its disbursement policies requiring original receipts.

Recommendation #7: That anytime the University or any of its related companies enter into a significant financial transaction with substantial donors or other entities with considerable relationships with the University or any of its related companies, consider applying a higher level of scrutiny and transparency to the transaction. (page 10)

FHSU Response: The University agrees and will implement this recommendation with all future transactions.

Recommendation # 8: That the University consider detailing this transaction in a written agreement to be signed by representatives from both the University and the owner of Stadium Place, to document the liability that has been paid. (pages 10-11)

FHSU Response: The University agrees and will develop appropriate documentation and obtain appropriate signatures. Anticipated date of completion is March 31, 2010.

Recommendation # 9: That the University and the affiliated entities obtain signed contracts for all financial obligations into which the University or any of the affiliated entities enter. (page 11)

FHSU Response: The University agrees and will implement a process for obtaining signed documents for all financial obligations entered into by the University and its affiliates immediately.

Recommendation # 10: It is recommended that the Foundation consider seeking a written tax opinion regarding any possible tax liability on the part of the Foundation for one transaction of a donation that resulted in personal benefit, and that the Foundation consider implementing new internal controls that would address this issue. (page 11)

FHSU Foundation Response: The tax opinion has been requested.

Recommendation # 11: It is recommended that the Foundation consider a written tax opinion regarding the possible tax liability on the part of the Foundation for its acceptance of funds from the Pepsi contract. (page 11)

FHSU Foundation Response: The tax opinion has been requested.

Recommendation # 12: It is recommended 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.

(page 11)

FHSU Response: The University agrees. All requests for expense reimbursement or payments made from the president's discretionary funds within the Foundation will be reviewed and signed by the vice president for administration and finance, or where family members are involved, the president (or delegate) of the Foundation.

Recommendation # 13: It is recommended that the Alumni Association consider working with the University to identify alternate support for postage so that the Alumni Association can verify it is being charged appropriately, and so proper documentation of the transactions can be kept on file at the Alumni Association. It is also recommended that the Alumni Association follow all other disbursement procedures it has in place. (page 12)

FHSU Alumni Response: The University and Alumni Association will review the process of billing concerning postage and other charges. Procedures will be put in place to better account for charges incurred. Procedures will be implemented by March 31, 2010.

Recommendation #14: The Alumni Association consider keeping mileage logs which clearly indicate the business purpose of each trip. (page 13)

Alumni Association Response: The Alumni Association agrees and will begin immediately keeping mileage logs consistent with IRS regulations.

Recommendation # 15: It is recommended that all transactions between the Alumni, Foundation, Athletics, Sternberg and the University be formalized with regard to structure, accountability and transparency. It is further recommended that the University and its affiliated corporations consider implementing formal, documented approval processes to insure that all transactions are appropriately vetted prior to being recorded. And finally it is recommended that the legal structure of Athletics, the Alumni Association and Sternberg be reviewed for appropriateness. (pages 13-14)

FHSU Response: The University will consider all the recommendations listed above while determining the best structure for all the affiliates. Affiliation agreements will be developed for those that continue their 501 c(3) status while other affiliates may be merged with the University. The University agrees that more structure, accountability and transparency are necessary for all transactions, processes and agreements between it and its affiliates. December 31, 2010, is the planned date of completion of the review and implementation of changes.

Recommendation #16: It is recommended the University follow the Conflict of Interest Policy as it is written, which requires an annual reporting form to be completed. (page 14)

FHSU Response: The University believes its current practices are in compliance with the University's and Board of Regent's Conflict of Interest Policies, but it will consider the recommendation to require an annual reporting form be completed.

Recommendation #17: It is recommended the Foundation's Conflict of Interest Policy be expanded to include all employees, as well as consider additional language relating to conflicts of time. (page 14)

FHSU Foundation Response: The FHSU Foundation will implement the change by July 1, 2010.

Recommendation # 18: It is recommended that the Alumni Association, Sternberg, and Athletic Corporation consider implementing a formalized Conflict of Interest Policy that is approved by its Board of Directors. (page 14)

FHSU Response: Because most employees of the three affiliates mentioned are paid by the University, they currently must adhere to the conflict of interest policy of the University.

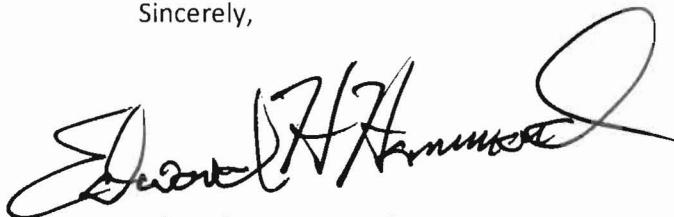
FHSU Affiliate Response: Each employee who is not subject to the University's conflict of interest policy will be required to fill out a conflict of interest form similar to the University's form.

Recommendation # 19: It is recommended that the University consider identifying the percentage of the Alumni Association's Executive Director's time spent for the benefit of the Alumni Association and cause the Alumni Association to compensate her as appropriate. It is also recommended that the Director's contract recognize the division of time between the University and the Alumni Association, similar to the process used for coaches. (page 14)

FHSU Response: The University does not agree that the Executive Director is a "fractional employee" as the employment contract is with the University and the salary is paid by the

University. In addition, annual performance reviews for the Executive Director are completed and presented by the President of the University. As part of the review of affiliated entities discussed in the University's response to recommendation 15, however, the University will consider the recommendations listed above.

Sincerely,

A handwritten signature in black ink, appearing to read "Edward H. Hammond".

Edward H. Hammond
President

A handwritten signature in black ink, appearing to read "Michael W. Barnett".

Michael W. Barnett
Vice President for Administration and Finance