Commonwealth of Pennsylvania
State System of Higher Education
Indiana University of Pennsylvania
July 1, 2005, to October 24, 2007
Performance Audit

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December 26, 2007

The Honorable Edward G. Rendell
Governor
Commonwealth of Pennsylvania
Harrisburg, Pennsylvania 17120

Dear Governor Rendell:

This report contains the results of a performance audit of Indiana University of Pennsylvania of the State System of Higher Education from July 1, 2005, to October 24, 2007. The audit was conducted under the authority provided in Section 402 of The Fiscal Code and in accordance with *Government Auditing Standards* as issued by the Comptroller General of the United States.

The report details our audit objectives, scope, methodology, results, and recommendations. The current report notes that the university did not remedy several deficiencies disclosed in our prior report. The Student Cooperative Association again failed to adequately monitor soda and juice vending commissions. Additionally, although the university awarded a contract to pre-sort its first class mail since our prior audit report, it did not execute the contract. Finally, the university only partially implemented the prior report's recommendations regarding delinquent student accounts. The university still sent the initial past due notices to students late, but it was timelier in sending its second and third dunning letters and its submissions of delinquent accounts to the Office of the Attorney General. The university also permitted the enrollment of students with past-due balances on their accounts. Moreover, the university did not contract with a private agency to further pursue collections of student accounts authorized for write-off by the Attorney General. Additionally, if collection was not possible, the university did not file a record of these accounts with a credit-reporting agency. The contents of the report were discussed with the management of Indiana University of Pennsylvania, and all appropriate comments are reflected in the report.

We appreciate the cooperation extended to us by the management and staff of Indiana University of Pennsylvania and by others who provided assistance during the audit.

Sincerely,

JACK WAGNER
Auditor General

Table of Contents

Background Information

State System of Higher Education

The Commonwealth of Pennsylvania's state-owned colleges and university were under the administrative control of the Pennsylvania Department of Education prior to July 1, 1983. The legislative enactment of Act 188 of 1982 on December 17, 1982, transferred administrative and operational responsibility to the newly created State System of Higher Education, and the institutional designations of the state colleges were changed to universities effective July 1, 1983.[1] Today, the State System comprises 14 universities, 4 branch campuses, the McKeever Environmental Learning Center, and the Dixon University Center. The 14 state-owned universities include Bloomsburg, California, Cheyney, Clarion, East Stroudsburg, Edinboro, Indiana, Kutztown, Lock Haven, Mansfield, Millersville, Shippensburg, Slippery Rock, and West Chester.

A centrally established Board of Governors, which functions as the primary policy setting and control authority, administers the State System. The Board consists of 20 members and has the overall responsibility for planning and coordinating the State System's development and operations. Its statutory powers include establishing operating policies, appointing university presidents, reviewing and approving university operating and capital budgets, setting tuition and fee levels, creating new programs, and promoting cooperation among institutions. Members of the Board include legislators, State System university students and trustees, and members of the public. The Governor and Secretary of Education, or their designees, also serve on the Board. Additionally, a chancellor is appointed by the Board to serve as the chief executive officer of the State System.

At the individual university level, Act 188 of 1982 granted certain statutory responsibilities to each university president and locally established Council of Trustees.

The State System was created to enhance the higher educational service system of the Commonwealth by providing the highest quality education at the lowest possible cost to the students. The primary mission of the State System is to provide instruction for undergraduate and graduate students to and beyond the master's degree level in the liberal arts and sciences and in applied fields, including the teaching profession. Each university is to provide appropriate educational, student living, and other facilities as deemed necessary by the State System's Board.

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[1] Public School Code of 1949, 24 P. S. § 20-2001 et seq.

Background Information

Indiana University of Pennsylvania

Indiana University of Pennsylvania is located in the Borough of Indiana, Indiana County, approximately 50 miles northeast of Pittsburgh. The university's origin dates back to 1875, when it served 225 students in a single building as a State Normal School. With continuous growth in enrollment and academic stature, it was the first of the 14 state-owned colleges to be granted university status, effective December 1965. At that time, the university was given the authority to expand its curriculum, to grant degrees at the master's level, and to institute the first doctoral program.

Currently, Indiana is a multi-purpose institution of higher learning consisting of six colleges and two schools. In addition to its main campus, the university also operates two branch campuses located in Punxsutawney and Kittanning; both are within 30 miles of the town of Indiana.

The University is accredited by the Middle States Association of Colleges and Schools, the National Council for Accreditation of Teacher Education, and other accrediting organizations.

The Joint State Government Commission compiled the following select unaudited operating statistics for the 2004-05 and 2005-06 academic years for Indiana and the State System.

Data/Location	2004-05	2005-06
State Instruction Appropriations (rounded in millions):		
Indiana University	$56.7	$60.1
State System of Higher Education	$428.9	$443.3
Full-Time Equivalent Students (FTE's):		
Indiana University		
Undergraduate	12,083	12,063
Graduate	1,359	1,531
Total	13,442	13,594
State System of Higher Education		
Undergraduate	89,650	91,766
Graduate	9,677	10,446
Total	99,327	102,212
Full-Time Equivalent Instructional Faculty:		
Indiana University	681	717
State System of Higher Education	5,155	5,258

Objectives, Scope and Methodology

We selected the audit objectives detailed in the body of the report from the following area: Expense Management, including a review of Indiana's maintenance expenses and work order administration. In addition, we determined the status of recommendations made during the prior audit of Indiana. The specific objectives for this audit were:

- To assess the adequacy of controls over maintenance expenditures. This included an assessment of the economy and efficiency of operations, as well as maintenance department work order administration.

- To determine the status of management's corrective actions for prior audit findings that addressed Indiana's Student Cooperative Association, purchasing card program, mail service, summer camp program, and student accounts receivable.

The scope of the audit was from July 1, 2005, to October 24, 2007, unless indicated otherwise in the individual findings.

To accomplish these objectives, auditors reviewed applicable university policies and procedures governing maintenance department operations. They also reviewed Indiana University's written response dated April 25, 2006, replying to the prior Auditor General audit report, and university and Commonwealth policies pertaining to each prior finding.

Auditors interviewed appropriate Indiana management and staff, including the Director of Accounts Payable, the Director of Facilities Operations, and the Coordinator of Facilities, Customer Relations, and Operations.

For the testing of maintenance expenditures, the auditors analyzed the documentation associated with 32 of 4,851 work orders completed between April 1, 2007, and June 30, 2007. They also examined the documentation associated with 51 of 255 corrective work orders open on July 25, 2007, and examined the supporting documentation for 217 maintenance credit card purchases from November 16, 2006, through May 16, 2007.

Finally, auditors performed tests, as necessary, in prior audit areas to substantiate their understanding of Indiana University's progress in resolving the prior audit findings. The specific tests are summarized in each prior audit finding.

Audit Results

Maintenance Expenses

Indiana's maintenance department is responsible for the care and maintenance of 75 major buildings on its main campus, as well as on its Punxsutawney and Armstrong branches. This department also maintains campus grounds, motor vehicles, and equipment for the university. The university's maintenance department employs over 50 workers in nine specialty trade shops, including the electrical, carpentry, and paint shops.

Finding 1 – Indiana effectively controlled its maintenance expenditures and work order system.

Indiana adequately controlled its maintenance expenditures and effectively administered its work order system. The review of 217 purchasing card disbursements and 32 processed work orders did not disclose any unnecessary or exorbitant maintenance expenditures. Additionally, purchasing and receiving documents, invoices, and documented justifications accompanied the 217 sampled purchasing card disbursements. The review of 32 processed work orders disclosed that the maintenance department timely completed maintenance work an average of nine days and a median of seven days after request. The maintenance department documented the labor and material costs for the sampled work orders. Lastly, none of the 51 sampled open work orders involved emergency safety or security issues.

Status of Prior Audit Findings and Recommendations

The following is a summary of the findings and recommendations presented in our audit report for July 1, 2003, to April 1, 2005, along with descriptions of Indiana's disposition of the recommendations.

Prior Finding I–2 – The Student Cooperative Association did not monitor soda and juice vending commissions adequately.

The agreement between the Association and the vending contractor for soda and juice provided the Association with a 42 percent sales commission. The Association, in turn, reimbursed the contractor for vending machine sales transacted with I-cards.

The prior audit reported that the Student Cooperative Association (Association) did not adequately monitor sales and/or commissions from its soda and juice vending machines. The bottled beverage contractor furnished the Indiana campus with 52 vending machines with card readers and 27 machines without card readers. The vending machines with card readers accommodated both cash and identification I-card (or electronic debit card) purchases, while the machines without readers allowed only cash purchases. Between July 1, 2003, and April 1, 2005, the vendor downloaded both cash and I-card sales data from machines with readers and then forwarded the corresponding sales reports to the contract monitor. The vendor provided inventory/sales data for the machines without readers only at the contract monitor's request. According to the contract monitor, the vendor did not notify the Association or submit final sales readings when it replaced campus machines and/or card readers. The audit disclosed that at least six of the machines on Indiana's list of vending equipment with readers did not actually possess readers. Finally, the vendor did not prepare any invoices that summarized its uncollected I-card revenue or the commissions and transaction fees due to the Association. As a result, the contract monitor used incomplete and/or unsupported vendor information to calculate the Association's reported sales and commissions.

We recommended that Indiana's Student Cooperative Association management adequately monitor the soda and juice contract. We recommended that management require the vendor to routinely provide sales data for all machines, including the cash-only machines; that management personnel meet with the vendor at least quarterly to reconcile association data with vendor data; and that management require the vendor to notify the association and submit final sales readings when any readers are removed or machines are replaced.

Status of Prior Audit Findings and Recommendations

Status:

In order to follow up on the monitoring deficiencies noted in the prior report, the auditors interviewed the Association's director of vending services and reviewed the Association's contract for juice and soda vending services, as well as the associated sales and commission reports, card reader reports, and vendor invoices from December 2004 through June 2007.

The current audit disclosed that the Association partially implemented the recommendations of the prior report. Between December 26, 2004, and June 16, 2007, the vendor provided the Association quarterly inventory-based sales reports and the related commissions for all machines on the Indiana campus. However, the Association did not reconcile these inventory-based sales reports to the independently generated card reader sales reports. The contract monitor did not possess a complete list of all campus machines. Finally, the Association did not adequately monitor its I-card payments to the vendor.

The vendor prepared quarterly sales reports for all machines, both those with and without card readers, based on inventory counts. The vendor also periodically downloaded the cash and I-card sales data from the campus machines with readers, forwarded this sales data to the Association, and then invoiced the Association for I-card purchases. According to the vendor's sales reports based on inventory counts, vending sales and related commissions totaled approximately \$494,689 and \$207,769, respectively, between December 26, 2004, and June 16, 2007. However, the Association did not independently confirm the sales figures for the machines with card readers. The Association did not require the vendor to take readings on the same day as inventory replenishment and did not compare the inventory-based reports to the sales reports based on readings. Moreover, the contract monitor did not maintain a complete list of all machines on campus. As a result, the accuracy and completeness of the inventory-based figures could not be determined.

Additionally, the Association did not adequately monitor its I-card payments to the vendor. Although the vendor reported five separate machine readings to the Association between March 20, 2005, and October 28, 2005, the Association did not reimburse the vendor the associated \$48,568 in uncollected revenue. According to the contract monitor, the vendor did not send the Association invoices for the aforementioned I-card debt. However, the vendor invoiced and the Association paid for I-card purchases between December 26, 2004, and March 19, 2005, and between October 29, 2005, and May 17, 2007.

Recommendations:

The Association should independently verify the inventory-based sales and commission amounts reported by the vendor in order to adequately monitor its bottled beverage vending contract and to ensure the accuracy, completeness, and timeliness of reported sales, commission receipts, and I-card payments.

Association management should require the vendor to take card readings on the same day as inventory replenishment, and then the Association should compare inventory-based reports to sales reports based on card readings. Additionally, the contract monitor should maintain a complete list of all machines on campus.

The Association should reimburse the vendor for any uncollected I-card revenue. Additionally, the contract monitor should maintain a file of outstanding card reader reports and notify the vendor when any invoice is not received within 30 days of the associated card reader report.

Management Comments:

We are in agreement with these findings and recommendations. Since January 2005, the Student Co-op has required the vendor to submit quarterly reports showing all sales and commission due for machines with and without readers. We meet with the vendor quarterly to ensure data that has been reported match[e]s data received. We require the vendor to report any readers being removed or replaced and to take final readings.

Association management cannot independently verify inventory-based sales and commission amounts reported by the vendor. Association management cannot require the vendor to take card readings on the same day as inventory replenishment but will request they do so. The Association will maintain a complete list of all machines.

The Association will reconcile any outstanding amounts due vendor. The Association will maintain a file of any outstanding card readings and notify vendor within 30 days of any outstanding invoice.

Prior Finding III–1 – Purchasing cardholders did not comply with university policies and procedures regarding split purchases, supporting documentation for purchase transactions, and the acceptance of vendor gifts.

The prior audit reported that Indiana did not consistently enforce its purchasing card policies and procedures. The analysis of 434 cardholder statements from October 2003 through September 2004 revealed eleven split purchases that appeared to circumvent $500 card transaction limits. Additionally, the review of 49 purchasing card transactions with an approximate value of $11,500 disclosed that cardholders did not document the justifications for 23 transactions with a cumulative value of $5,500. Finally, the analysis of card activity statements and related invoices disclosed that a university department accepted at least 161 free items from an office supply vendor from October 2003 through September 2004. The free items included 24 packages of recordable compact diskettes, 16 bath product gift sets, 14 cookie tins, 12 clock radios, 5 cases of printer paper, 5 barbeque grills with accessories, 4 outlet surge protectors, 2 small electric grills, and a paper shredder.

We recommended that university management enforce purchasing card policies and procedures for preventing Cardholders from splitting any transaction to circumvent card limits; for the completion by the Cardholders of purchasing logs to justify the business or allowable nature of expenditures; and for the Cardholders to decline vendor gifts or gratuities.

Status:

In order to follow up on the recommendations of the prior report, the auditors interviewed Indiana management and staff, including accounting and purchasing personnel. The auditors also reviewed Indiana's policy statement[2] and procedural guidelines[3] for its purchasing card program, as well as the State System's Code of Ethics for employees engaged in procurement activities.[4] The auditors examined the supporting documentation for 183 transactions associated with a sample of one cardholder statement for each month from July 2005 through May 2007. Finally, the auditors analyzed five purchasing card statements and related invoices from June 2006, and February through May 2007, for the cardholder identified in the prior audit as the recipient of 161 free items from an office supply vendor.

The current audit disclosed that Indiana complied with the prior report's recommendation that university management enforce purchasing card policies and procedures.

Prior Finding IV–2 – The University did not pre-sort its first class mail.

The United States Postal Service (USPS) offers discounts to users that bar code, sort by zip code, and then deliver their mail to USPS facilities. Independent contractors can perform these pre-sort functions, enabling clients to receive USPS discounts. The prior audit reported that Indiana did not pre-sort its first class outgoing mail. As a result, the university did not receive approximately $17,000 in postal discounts during 2004. According to Indiana management, the university was in the process of evaluating the costs and benefits associated with pre-sorting its first class mail in-house or through an independent contractor.

We recommended that Indiana management complete the evaluation of pre-sorting first class mail and implement the option that would provide the greater savings to the university.

Status:

In order to follow up on the status of the prior report's finding, the auditors interviewed personnel from Indiana's mailroom and print center, reviewed the contract for pre-sorting the university's first class mail, and analyzed Indiana's summary of metered mail from December 1, 2006, through July 31, 2007. The current audit disclosed that Indiana did not implement the recommendation of the prior report.

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[2] http://www.iup.edu/controller/purchasingcard/IUP%20PCard%20Policy%20Statement.doc View Date: September 12, 2007.
[3] http://www.iup.edu/controller/purchasingcard/files/IUPPurchasingCardProcedures.doc View Date: September 12, 2007.
[4] http://www.passhe.edu/content/?/office/finance/procurement/ethics View Date: August 21, 2007.

In July 2005, Indiana awarded a contract to process its pre-metered first class mail. According to the three-year contract, effective August 1, 2005, Indiana would meter its first class mail at the discounted rates of $0.309 for one-ounce letters and $0.534 for two-ounce letters. The contractor would pick up, pre-sort, bar code, and then deliver the pre-metered mail to a USPS general mail facility for a handling fee of $0.02 per one-ounce and two-ounce letter. Based on the USPS postal prices at July 2005, Indiana would save $0.061 per one-ounce letter and $0.076 per two-ounce letter.

However, Indiana did not implement the contract. According to management personnel, in July 2005, the university's mailroom did not possess computer software that would track the pieces of mail processed by individual university departments, and, thus, the university was unable to charge the individual departments the appropriate share of the contractor's handling charge. Management asserted that a manual system would have been too time-consuming. In December 2006, Indiana upgraded its mailroom software. The software quantified each department's mail usage by postal type. Yet Indiana still did not implement the contract to pre-sort its mail.

If Indiana had implemented the contract to pre-sort its mail when the software was upgraded, the university would have received approximately $25,000 in postal discounts between December 1, 2006, and July 31, 2007.[5] According to the new software, Indiana metered approximately 365,700 one-ounce letters and about 32,500 two-ounce letters between December 1, 2006, and July 31, 2007.

<u>Recommendations:</u>

Indiana should meet with the vendor in order to implement the contract to pre-sort its mail. Indiana should then train its mailroom staff to perform any new necessary procedures.

<u>Management Comments:</u>

We are in agreement with these findings and recommendations. Since July of 2005, the University has been in the process of developing practices and procedures to support and promote the pre-sorting of first class mail. Unfortunately, we have encountered multiple problems in developing and implementing these procedures from incompatible software issues to competing project priorities.

In July 2005, IUP awarded a contract to process 1-oz and 2-oz first class metered mail. The university's mailroom did not possess postage discernable computer software that would track the pieces of 1-oz and 2-oz mail processed by individual university departments. Therefore, the university was unable to charge the individual departments the appropriate share of the contractor's handling charge of

[5] On May 14, 2007, the USPS changed its domestic postal prices. The estimated savings are based on the USPS postal rates in effect at the time the contract was signed.

1-oz and 2-oz presorted mail pieces nor correctly distribute the reduced mail charges departmentally.

In February 2006, software with the requisite ability was purchased for capturing discernable mail classes, but was found to be incompatible with university network security protocols. Steps were initiated to correct this problem with the vendor and the software. Unfortunately, the University was mandated by the Chancellor's Office to convert our financial reporting system to the SAP Finance System with a conversion period of March 2006 to November 2006 requiring the diversion of resources from the Pre-sort Project extending the time needed to resolve the problems and implement new procedures.

During the period of November 2006 through May 2007, work continued on the Pre-sort Project while implementation of SAP and university community training on SAP continued to consume the majority of management's attention and resources. In May of 2007, the USPS implemented a new weight /shaped postage charge system. Under this new system, postage is assessed by not only weight but also shape, size and flexibility of mail pieces. As a result, the Metering system was no longer able to assess postage in accordance with the terms of the presort contract in a time effective manner. As each mail piece must now be weighed, sized, tested for flexibility prior to postage metering the processes involved with pre-sorting required a complete redesign.

To complicate matters, in May 2007, the University began a building renovation project to centralize 4,000 student residence mailboxes into the Post Office. During this project Postal Services was relocated from its permanent building location to temporary quarters, resulting in reduced facility capacity, diminished mailing services, and suspension of Pre-sort process development. In October 2007, the building renovations were completed and normal operations resumed.

The current Pre-sort contract is due to expire on June 30, 2008. We intend to investigate our pre-sort options with the current and other viable vendors and determine our best course of action considering the new USPS charge system and alternative information distribution processes being implemented in December 2007. Specifically, we are implementing e-mail billing and internet availability of 1098T information, which are expected to significantly reduce first-class mailing costs in these areas.

Prior Finding V–1 – Controls over summer camp revenues and expenditures were deficient.

The athletic department administers Indiana's summer camp program. The university uses the associated net revenues to fund athletic scholarships or to enhance athletic operations budgets. Indiana and its athletic department have developed policies and procedures to address purchasing requirements, payroll processes, expense documentation, and financial reporting requirements.

The prior audit reported deficiencies in both registration fee collection and expenditure controls for one of eight sampled camps and a shortfall in fee collections in another camp.

We recommended that Indiana's athletic department enforce its current policies and procedures regarding camp fee collections, purchases, and payroll. We also recommended that the athletic department prohibit the use of cash receipts to make cash disbursements. We recommended that Indiana require the residence life office to forward its final housing roster to the athletic department. Finally, we recommended that the athletic department reconcile this housing roster with the camp director's final participant roster to ensure the accuracy of the housing invoice and/or the collection and documentation of all camp participant fees.

Status:

In order to follow up on the control deficiencies noted in the prior report, the auditors interviewed athletic department personnel and reviewed Indiana's summer camp policies and procedures. The auditors also reconciled athletic department summary reports to receipt records, participant rosters, university housing rosters, invoices, camp expense records, and camp payroll documents for 4 of the 13 camps operated during 2005 and for 4 of the 14 camps operated during 2006.

Revenue Testing

The review of 2005 and 2006 summer camp documentation disclosed disagreement between the numbers of campers recorded on the housing invoices and the numbers reported on the receipt records for four of the seven sampled overnight camps. The greatest discrepancy occurred in the records for the 2005 women's basketball camp, where the housing invoice billed for 68 overnight campers, and the athletic department's receipt records indicated 59 campers. Additionally, the housing invoice billed for two more campers than recorded by the 2006 field hockey camp and for one more camper each than recorded by the 2005 volleyball camp and the 2006 soccer camp. The residence life office did not retain nor forward its final housing roster to the athletic department for any of the seven sampled overnight camps or the one sampled commuter camp. Thus, neither the audit team nor Indiana's athletic department staff could determine the specific causes or monetary effects of the discrepancies.

The review of 2005 and 2006 summer camp records also disclosed that camp directors or athletic business office personnel did not document the justifications for discounted registration fees charged to 8 of the 605 campers listed on the participant rosters for the 8 sampled camps. The cumulative value of these eight discounts from three different camps totaled $535.

Expense Testing

The review of purchase requisitions, camp expense forms, vendor invoices, and payroll forms for the 4 sampled camps operated during 2005 and for the 4 sampled camps operated during 2006 revealed that the associated camp directors followed camp expenditure and payroll policies and procedures.

Indiana hired a new Chief Athletic Financial Officer in May 2007, which was prior to the 2007 summer camp season. According to interviews, the Chief Athletic Financial Officer adopted several measures to improve controls over the summer camp program. As a result, we have no additional recommendations at this time. The Department of the Auditor General will conduct an audit of Indiana's summer camps during the next scheduled audit to review the implementation of the new control measures.

Prior Finding VI–1 – Indiana did not process delinquent student accounts timely.

The prior audit reported that Indiana did not send notices or submit doubtful accounts to the Office of the Attorney General in accordance with established policies and procedures. The university did not send past-due notices to students within the established time. Additionally, the university did not forward delinquent accounts to the Attorney General in a timely manner - in some cases, more than a year after delivery of the last past-due notice.

We recommended that Indiana management enforce policies and procedures regarding the timelines for processing delinquent student accounts. We also recommended that university management evaluate the staff levels and work assignments in the Office of the Bursar and make any necessary changes to ensure that accounts receivable procedures are completed timely.

Status:

In order to follow up on the processing deficiencies noted in the prior report, the auditors interviewed employees from Indiana's Administration and Finance Division. The auditors also reviewed the Commonwealth of Pennsylvania Governor's Office directive regarding the processing of delinquent claims,[6] Indiana's policy statement regarding financial holds placed on student accounts,[7] written narratives of university procedures for the collection of delinquent accounts receivable, and the management letter associated with the independent audit of the university for the fiscal year ended June 30, 2003. The auditors examined 37 of 969 university accounts designated delinquent from the Fall 2005, Spring 2006, Summer 2006, and Fall 2006 semesters. Finally, the auditors analyzed university reports of those students with financial holds on their accounts who registered for the Fall 2006 or Spring

[6] Commonwealth of Pennsylvania Governor's Office, Management Directive 310.10 Amended, "Collection, Requests for Compromise, and Write-off of Delinquent Claims," August 29, 1996.
[7] Indiana University of Pennsylvania, Policy Statement, "Financial Holds Placed on Student Accounts," January 14, 2004.

2007 semesters. The current audit disclosed that Indiana partially implemented the recommendations of the prior report.

Timeliness of Initial Dunning Letters:

Section 6.1 of Governor's Office Directive 310.10 specifies procedures for the collection of delinquent claims. The directive requires the university to issue at least three past-due notices at intervals of 30 days each prior to submission of delinquent accounts to the Attorney General.[8] Although the university improved the timeliness of its second and third dunning letters and its submissions to the Office of the Attorney General, it still sent the initial past due notices late. Indiana did not send past-due notices to students within established time guidelines for 30 of the 37 audited delinquent accounts. The delinquent collections office sent the first standard dunning letter late for each of the 30 exceptions. First notification for these 30 accounts averaged 143.5 days and ranged from 105 to 192 days after the semester end.

Indiana management asserted that the failure to process student accounts timely was due, in part, to the employment departure of the bursar's assistant in early 2001. Management also contended that this position vacancy caused the untimely processing of delinquent accounts noted in the prior audit report.

Delays in collection efforts reduce the likelihood of collection success. The longer the delay in sending the first dunning letter, the greater is the potential for student nonpayment.

Enrollment of Students with Past-due Balances:

In January 2004, the university issued a policy to regulate the placement, removal, and over-ride of financial holds on student accounts. The policy states, in part:

> *No student may receive grades, transcripts, career services assistance, register for classes (credit or non credit), or receive any university services if the student has not fulfilled the financial obligations to the university…*
>
> *Financial holds developed by the Bursar and placed on a student account by the Bursar or his/her designee, must remain on the student account until the Bursar or his/her designee is satisfied that the student's financial obligation to the university is met…*
>
> *No financial hold may be removed or over-ridden by any other academic or administrative personnel without the approval of the Bursar or his/her designee...*

[8] Commonwealth of Pennsylvania Governor's Office, Management Directive 310.10 Amended, "Collection, Requests for Compromise, and Write-off of Delinquent Claims," August 29, 1996.

> *The Bursar will review and report all instances of noncompliance to the Director of Fiscal Affairs.*[9]

The review of 37 delinquent accounts from the Fall 2005 through Fall 2006 semesters disclosed that the university permitted the registration of 7 students with past-due account balances. The examination of internal registration reports revealed that an additional three students registered for the Fall 2006 or Spring 2007 semesters despite financial holds placed on their accounts. The individual past-due balances for the ten students ranged from $710 to $6,902.

Various factors enabled the above ten students with past-due balances to register for classes. The bursar's office did not timely place five of the financial holds prior to student registration for the following semester. The university permitted two of the above students to register under a program designed to increase student retention. Finally, three students who were in good financial standing during the Spring term registered for Fall classes. However, each of the three students did not pay for classes attended during the intervening summer.

According to Indiana management, staff shortages hindered the Office of the Bursar from timely placing holds on all past-due accounts, as well as from adequately monitoring Summer term balances for those students who previously registered for the Fall semester. Management personnel also maintained that office staff levels and the resultant workloads prevented the weekly run of the university's internal registration report for students with financial holds on their accounts.

The university implemented a student retention program beginning with the Fall 2005 semester registration. The program provided students in good academic standing one opportunity to enroll in classes despite past-due account balances. The university, which did not revise its policies and procedures to reflect the retention program specifics, initially did not limit participation in the program based on the size of a student's past-due balance. For example, our review of 37 delinquent accounts revealed that the university permitted one student with a past-due balance of $6,902 to register for Spring 2006 classes. The student then incurred an additional debt of $6,902 for the Spring 2006 semester. At June 30, 2006, this student's past-due balance totaled $13,804. However, internal e-mails disclosed that the university subsequently limited program participation for Spring 2007 registration to those students with past due balances less than $1,000.

The university's financial holds policy statement reads as follows:

> *The practice of placing a financial hold on a student account assists in regulating the amount of outstanding student receivables that the university*

[9] Indiana University of Pennsylvania, Policy Statement, "Financial Holds Placed on Student Accounts," January 14, 2004.

> *must report and the amount of bad debt expense that the university must assume.*[10]

The university's failure to enforce its existing policies and procedures over financial holds compromises the aforementioned controls over bad debts. The university's failure to incorporate the specifics of the retention program into its formal, written policies increases the potential that students with excessive past-due balances will be permitted to enroll in classes.

Recommendations:

We again recommend that Indiana management enforce policies and procedures regarding the timelines for processing delinquent student accounts. Indiana should also enforce its current policy and procedures regarding the placement, removal, and override of financial holds on student accounts. The university should develop formal, written policies and procedures that incorporate the specifics of its student retention program, including any limitations on the size of eligible past-due balances. Finally, university management should evaluate the staff levels and work assignments in the bursar's office and make any necessary changes to ensure the timeliness of dunning letters, financial holds, and reviews of the internal registration reports.

Management Comments:

We are in agreement with these findings and recommendations. However, our failure to timely implement the Auditor General's previous recommendations is due to extenuating circumstances; the University's Bursar retired in November 2006, followed in the next two weeks by two other key Bursar Office staff members transferring out of the department. Additionally, budget constraints necessitated several months delay in refilling the vacancies. Even though the retired Bursar returned for a temporary appointment of a couple months, the Department required a significant re-staffing and training period, which is just now becoming solidified.

Since the conclusion of the Auditor General's audit, we have initiated actions to address these findings. We have hired a full-time staff person to manage our delinquent accounts, efforts to re-staff the Bursar's Office are complete and all vacancies have been filled, a project has been initiated to automate the process of placing financial holds on student registrations, a project has been initiated to automate the dunning letter process, and a draft delinquent account policy developed prior to the Bursar's retirement has been resurrected as a starting point for a revised policy. We expect the results of these actions, projects and initiatives will adequately address the concerns raised through the Auditor General's audit.

[10] Indiana University of Pennsylvania, Policy Statement, "Financial Holds Placed on Student Accounts," January 14, 2004.

Status of Prior Audit Findings and Recommendations

Prior Finding VI – 2 - Indiana did not maximize delinquent account collection methods.

The prior audit reported that additional collection methods were available to the university. From July 1, 2003, to January 6, 2005, the Attorney General authorized and Indiana subsequently wrote off approximately $301,000 in student accounts. The university did not contract with a private agency to further pursue collections of these accounts or file a record of the delinquent accounts with a credit-reporting agency.

We recommended that Indiana management assess the costs and benefits of contracting with a private agency to pursue collections of accounts authorized by the Attorney General for write-off. We also recommended that the university consider filing a record of its delinquent accounts with a credit-reporting agency.

Status:

In order to follow up on the status of the prior report's recommendations, the auditors interviewed employees from Indiana's Administration and Finance Division, as well as personnel from the Financial Enforcement Section of the Office of the Attorney General and from the State System's Office of Administration and Finance. The auditors also reviewed the Commonwealth of Pennsylvania Governor's Office directive regarding the processing of delinquent claims.[11]

The current audit disclosed that Indiana did not implement the prior report's recommendations. The university still did not use all available collection methods and, thus, did not maximize the value of potential receipts. From July 1, 2005, to May 31, 2007, the Attorney General authorized and Indiana subsequently wrote off approximately $729,000 in student accounts. The university did not contract with a private agency to further pursue collections of these accounts or file a record of the delinquent accounts with a credit-reporting agency.

Governor's Office Directive Number 310.10 provides for uniform minimum collection efforts.[12] According to the Director of Operations of the Attorney General's Financial Enforcement Section, Indiana can either write off the account as authorized or pursue independent collection efforts after it receives authorization from the Attorney General.

According to Indiana management, the university did not use outside collection or credit-reporting agencies, because management believed that the Attorney General had already employed these services before the authorizations for write-off. Attorney General personnel indicated that although the Attorney General does utilize outside collection agencies, the office does not file records with credit-reporting agencies. Furthermore, the collection efforts of the Attorney General do not preclude subsequent efforts by the university.

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[11] Commonwealth of Pennsylvania Governor's Office, Management Directive 310.10 Amended, "Collection, Requests for Compromise, and Write-off of Delinquent Claims," August 29, 1996.
[12] Ibid.

Credit-reporting agencies maintain credit histories and are referenced before lending institutions and credit card companies approve loans or grant credit. The risk that future loans could be denied may create an incentive for delinquent student debtors to pay outstanding obligations.

Private agencies base their fees on a percentage of the value of collections. If Indiana had contracted with an outside agency to collect its student debts, the university may have increased the ultimate value of its receipts without incurring additional expense.

Recommendations:

We again recommend that Indiana assess the costs and benefits of contracting with a private agency to pursue collections of accounts authorized by the Attorney General for write-off. The university should also consider filing a record of its delinquent accounts with a credit-reporting agency.

Management Comments:

We are in agreement with these findings and recommendations. Currently there is a discussion within the PASSHE to investigate the possibility of a state-wide contract for private collection agency services to secure the best rate on behalf of all PASSHE universities. Upon the completion of this discussion, we intend to further investigate the cost/benefit of further collection efforts. In conjunction with this analysis, we plan to investigate the cost/benefit of filing a record of such accounts with a credit-reporting agency.

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