

AUDIT AND FINANCE COMMITTEE

Tuesday, October 21, 2014

**SUBJECT: REVIEW OF AUDITS: FAU 13/14-6, AUDIT OF STUDENT ACCOUNTS
RECEIVABLE FOR THE PERIOD JULY 1, 2013 THROUGH MARCH 31, 2014.**

PROPOSED COMMITTEE ACTION

Information Only.

BACKGROUND INFORMATION

The composition of a student's past due balance include a wide range of unpaid charges such as matriculation fees, tuition differential fees, local fees, non-refundable fees such as late payment and transportation access fees, and library fines. The primary objectives of the audit were to determine:

Adequacy and effectiveness of internal controls over collection follow-up efforts; referrals to the collection agency; and, account write-offs for delinquent student accounts receivable; and, reasonableness and propriety of the allowance for doubtful student accounts receivable.

Three recommendations were made to improve administration of FAU's collection activities.

IMPLEMENTATION PLAN/DATE

Management agreed to implement one audit recommendation by July 1, 2014 and the remaining two by September 30, 2014.

FISCAL IMPLICATIONS

Not Applicable.

Supporting Documentation:

Audit Report FAU 13/14-6

Presented by: Mr. Morley Barnett, Inspector General

Phone: 561-297-3682

Report No. FAU 13/14-6
Report Issue Date: July 9, 2014

FLORIDA ATLANTIC
UNIVERSITY™

Office of Inspector General

Audit Report: *Student Accounts Receivable*
For the Period of July 1, 2013 through March 31, 2014

Use of Report

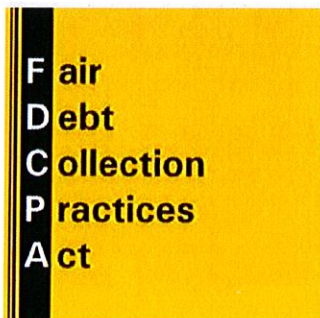
We are employed by Florida Atlantic University. This report is intended solely for the internal use of the State University System and is not intended to be used for any other purpose. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

BOCA RATON • DANIA BEACH • DAVIE • FORT LAUDERDALE • JUPITER • PORT ST. LUCIE

**REPORT ON THE AUDIT OF
STUDENT ACCOUNTS RECEIVABLE**

TABLE OF CONTENTS

<u>ITEM</u>	<u>PAGE</u>
LETTER OF TRANSMITTAL	iii
EXECUTIVE SUMMARY	iv
SCOPE AND OBJECTIVES	1
BACKGROUND	2
COMMENTS AND RECOMMENDATIONS	3
CONCLUSION	7



STUDENT FINANCIAL SERVICES

Delinquent Accounts/Collections

According to Florida Statutes 1010.03, each University is directed to exert every effort to collect all delinquent accounts, including the utilization of a collection agency, restricting the release of transcripts, diplomas and other University services. Therefore, any student account, with a balance more than 90 days past due, is deemed eligible to be sent to collections. Once a student account is placed with a collection agency the account will be assessed significant collection costs, up to 33.33% percent, in addition to the original account balance.



MEMORANDUM

TO: Dr. John Kelly
President

FROM: Morley Barnett
Inspector General

A handwritten signature in black ink, appearing to read 'Morley Barnett', is written over the printed name.

DATE: July 9, 2014

SUBJ: AUDIT OF STUDENT ACCOUNTS RECEIVABLE

In accordance with the University's Internal Audit Plan for fiscal year 2013-14, we have conducted an audit of the student accounts receivable function at Florida Atlantic University for the period July 1, 2013 through March 31, 2014. The report contained herein presents our scope and objectives and provides comments and conclusions resulting from procedures performed.

We have made three recommendations to address our findings. We concur with the responses of the auditee which have been incorporated into the report. In accordance with our established procedures, follow-up will be performed subsequent to the issuance of this report to determine effective implementation of these recommendations by management.

Please call me if you have any questions.

cc: University Provost
Vice Presidents
Auditee
FAU BOT Audit and Finance Committee
Inspector General, Florida Board of Governors
Florida Auditor General

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An Equal Opportunity/Equal Access Institution

EXECUTIVE SUMMARY

In accordance with the University's Internal Audit Plan for fiscal year 2013-14, we have conducted an audit of the student accounts receivable function at Florida Atlantic University for the period July 1, 2013 through March 31, 2014.

The primary objectives of this audit were to determine:

- The adequacy and effectiveness of internal controls over collection follow-up efforts; referrals to the collection agency; and, account write-offs for delinquent student accounts receivable; and,
- The reasonableness and propriety of the allowance for doubtful student accounts receivable.

Audit procedures included, but were not limited to, the evaluation of internal controls as those controls relate to the accomplishment of the foregoing audit objectives, as well as the performance of compliance testing on samples of delinquent student accounts and collection agency fee invoices in order to determine whether control procedures were operating effectively.

Based on our observations and tests performed, we are of the opinion that the university's collection activities relating to delinquent student accounts were being conducted in general compliance with all applicable laws, rules, regulations, policies, and procedures, and sound business practices. Notwithstanding this assessment, our compliance testing identified opportunities for improvement relating to:

- Contracts with collection agencies;
- Collection follow-up activities; and,
- Payment of collection agency fee invoices.

The details of all findings, as well as suggestions for corrective action, can be found in the Comments and Recommendations section of this report.



July 9, 2014

Dr. John Kelly
President
Florida Atlantic University
Boca Raton, Florida

Dear President Kelly:

SCOPE AND OBJECTIVES

In accordance with the University's Internal Audit Plan for fiscal year 2013-14, we have conducted an audit of the student accounts receivable function at Florida Atlantic University for the period July 1, 2013 through March 31, 2014.

The primary objectives of this audit were to determine:

- The adequacy and effectiveness of internal controls over collection follow-up efforts; referrals to the collection agency; and, account write-offs for delinquent student accounts receivable; and,
- The reasonableness and propriety of the allowance for doubtful student accounts receivable.

Audit procedures included, but were not limited to, the evaluation of internal controls as those controls relate to the accomplishment of the foregoing audit objectives, as well as the performance of compliance testing on samples of delinquent student accounts and collection agency fee invoices in order to determine whether control procedures were operating effectively.

We obtained an understanding of the university's student accounts receivable operations by reviewing written policies and procedures, interviewing key personnel, performing analytical reviews of selected financial data, and evaluating key internal controls. Our assessment of compliance with applicable laws, rules and regulations, and established policies and procedures was based on reviews of pertinent manual and electronic supporting documentation for judgmentally selected samples of delinquent student accounts and collection agency fee invoices. Populations, sample sizes, and selection methods were determined based on our evaluation of internal controls, our assessment of audit risk, the availability of pertinent university records, and other factors including auditor judgment.

We conducted our audit in accordance with the Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing.

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BACKGROUND

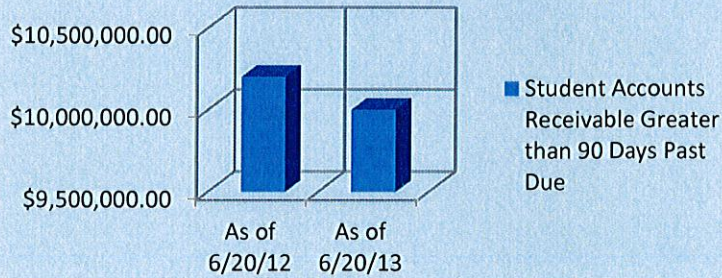
Students who do not have fee deferrals for a given semester and do not pay the amounts due by the payment deadline will have their registration canceled and their refundable fees reversed. However, these students will remain liable for all non-refundable fees owed such as late registration fees, late payment fees, and transportation access fees. Students with fee deferrals for a given semester for whom the fees are not fully paid will be held fee liable for any unpaid non-refundable fees as well. The composition of a student's past due balance could include a wide range of unpaid charges including, but not limited to, matriculation fees, tuition differential fees, local fees, non-refundable fees such as late payment and transportation access fees, library fines, and FAU short-term (non-interest bearing) loans.

The Student Financial Services (SFS) unit of the Controller's Office is primarily responsible for coordinating the collection follow-up efforts; referrals to the collection agency; and, account write-offs for delinquent student accounts receivable. SFS relies on multiple automated processes and Web Focus/Banner ePrint reports to identify, act upon, and follow-up on students with delinquent account balances. Administrative actions taken for delinquent student receivables include the application of late charges, registration cancellations, and transcript and registration holds; emailing of past due notices; and, transfers of accounts to a contracted collection agency. Generally, delinquent accounts will not be transferred to the collection agency until they have been past due for at least 120 days. According to SFS policies and procedures, the collections run process to prepare and upload a secure file of delinquent student accounts to the collection agency is typically performed at the end of the last month of a given semester for accounts that have been delinquent since the previous semester.

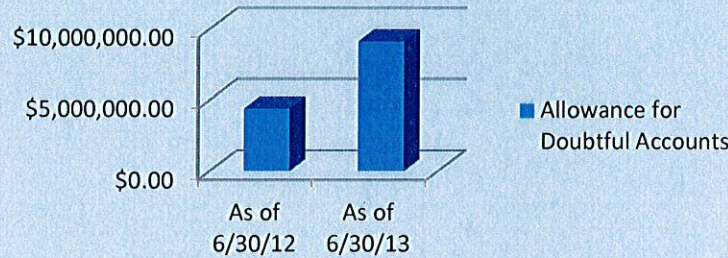
In order to fairly reflect the collectability of its current accounts receivable, the university maintains an allowance for doubtful accounts – pertaining to accounts receivable for student tuition and fees, various sales and services provided to students and third parties, and interest accrued on investments and loans receivable. The university's allowance for doubtful accounts is updated annually based on management's best estimate as of fiscal year-end considering the type, age, and collection history of its accounts receivable. The allowance for doubtful accounts pertaining to student tuition and fees is deemed to be the primary component of the total allowance for doubtful accounts receivable.

During the audit period, two full-time SFS employees – the Assistant Controller – SFS, and the Collections Manager, were primarily involved in managing the day-to-day collection follow-up processes for past due student accounts receivable. According to available Banner ePrint reports, as of 6/20/12 and 6/20/13, the university had approximately \$10.2 million and \$10 million respectively in total student accounts receivable greater than 90 days past due. As of the fiscal year-ends 6/30/12 and 6/30/13, the university's audited financial statements indicated total allowances for doubtful accounts of approximately \$4.4 million and \$9.1 million respectively.

Student Accounts Receivable Greater than 90 Days Past Due



Allowance for Doubtful Accounts



COMMENTS AND RECOMMENDATIONS

Current Findings and Recommendations

Lack of Executed Contracts with Collection Agencies

As allowed by Section 1010.03, **Delinquent accounts**. – *District school boards, Florida College System institution boards of trustees, and university boards of trustees*, Florida Statutes, the university has elected to refer student accounts that have been delinquent for an extended period of time to a collection agency for follow-up. Given the highly sensitive nature and extensive regulatory demands of the collection follow-up process, sound business practice dictates that the university executes appropriate written agreements with the collection agencies with which it conducts business.

As of 3/31/14, the university had referred multiple delinquent student accounts to a total of four collection agencies – Williams & Fudge, Enterprise Recovery Systems (ERS), NCO Financial Systems, Inc. (NCO), and Continental Service Group, Inc. (ConServe). According to management, since 2012 the university has referred its delinquent student accounts to either Williams & Fudge or ERS on a rotating semesterly basis. Management has indicated that – as of 3/31/14 – the university had a total of 25; 221; 970; and 1,858 accounts being serviced by NCO, ConServe, ERS, and Williams & Fudge respectively.

As a result of testwork performed, we noted the following exceptions pertaining to the university’s business relationship with the aforementioned collection agencies:

- Management did not have a formally executed written agreement with ERS. The agreement is critical for documenting the terms and conditions under which the agency will service the university’s delinquent accounts, including but not limited to, the agency’s responsibility for compliance with applicable federal laws such as FERPA (Family Education Rights & Privacy Act), FCRA (Fair Credit Reporting Act), FDCPA (Fair Debt Collection Practices Act), and others; the agreed-upon collection charge commission rate payable to the agency; and, periodic reporting requirements of the agency such as providing the university with copies of its audited annual financial statements;
- The university’s written agreement on file with Williams & Fudge was signed by a representative of the collection agency on 9/25/09, but was not signed by an authorized FAU official, i.e., the president or designee; and,
- Management was unable to provide us with copies of certain key documents required under the terms of the university’s agreements with Williams & Fudge, ConServe, and NCO, such as the \$400K surety bond/insurance policy to be maintained by the agency for errors and omissions, the latest annual certification of the aforementioned surety bond/insurance policy, and the agency’s latest annual audited financial statements.

Recommendation No. 1

We recommend management takes the necessary steps to obtain properly executed written agreements with all collection agencies with which it conducts business. In addition, follow-up should be performed annually to obtain key contractually-required documents to ensure the university’s financial interests are protected.

Management’s Response

Action Plan:

FSU and UF took the lead in negotiating as an overall SUS shared service contracts for collection agencies. FAU follows and executes the contracts with the same terms and conditions but did not have an individual contract. We will work with each agency to obtain an agreement whereby FAU is listed as the “University” and the collection fees and other terms transfer over from the SUS agreement to FAU.

Implementation Date: September 30, 2014

Responsible Auditee: Jessica Cohen, Ass't. VP-Fin. Affairs & University Controller

Collection Follow-Up Activities

The Student Financial Services (SFS) unit of the Controller's Office is primarily responsible for coordinating the collection follow-up efforts; referrals to the collection agency; and, account write-offs for delinquent student accounts receivable. Administrative actions taken for delinquent student receivables include, but are not limited to, the application of late charges, registration cancellations, and transcript and registration holds; emailing of past due notices; and, transfers of accounts to a contracted collection agency.

Testwork conducted for a judgmentally selected sample of 50 student accounts with past due balances as of 3/31/14, indicated the following exception pertaining to the non-assessment of a collection charge fee:

- A student's account that had a delinquent balance of \$6,220 when transferred to a collection agency (ERS) on 3/30/12, was not assessed a collection charge of \$1,555 based on the agency's collection fee of 25% (The university's current practice is to add the collection fee to the student's delinquent account balance reflected in its records). Management was unable to provide an explanation for non-assessment of the fee.

Recommendation No. 2

In order to comply with university policies and procedures, we recommend management ensures that delinquent student accounts are assessed the appropriate collection charge at the time of transfer to a collection agency.

Management's Response

Action Plan:

FAU currently has a process that places/removes collection charges on the student's account. This is an isolated case. However, SFS will work on creating a separate process to monitor that the collection charges are correctly applied to all student accounts.

Implementation Date: September 30, 2014

Responsible Auditee: Jessica Cohen, Ass't. VP-Fin. Affairs & University Controller

Payment of Collection Agency Invoices

According to FAU's Accounts Payable Policies & Procedures, all invoices are required to be paid within forty calendar days of receipt by the university. If a discrepancy or dispute arises, the forty-day rule is waived until the issue is resolved. Upon resolution, a written explanation must be attached to the approval documentation to explain why the payment was delayed.

Testwork conducted for a judgmentally selected sample of six invoices received from the collection agencies Williams & Fudge and ERS (Enterprise Recovery Systems) for monthly collection charges during the period 7/1/13 – 3/31/14, indicated the following exceptions:

- Five of six invoices - three from Williams & Fudge and two from ERS - were not paid within 40 calendar days of receipt by the Controller's Office. In addition, there were no written explanations as to why the approvals were delayed. The invoices ranged between \$2,794.51 and \$11,431.80, and were not paid until 57 to 92 calendar days after the invoice dates; and,
- We were unable to verify the propriety of the collection commission rates assessed by Williams & Fudge (23.07%) and ERS (20%) for student payments reported on their respective invoices given the absence of properly executed agreements with these agencies.

Recommendation No. 3

In order to comply with university policies and procedures, and sound business practices, we recommend management ensures all fee invoices from the collection agencies are based on contractually-agreed commission rates, and paid in a timely manner. In the event of a discrepancy or dispute, a written explanation for the payment delay should be included in the documentation supporting the disbursement.

Management's Response

Action Plan:

All vendor collection billing statements will be sent directly to Accounts Payable. Accounts Payable will log the invoice in Banner which will ensure the fees are paid within 40 days with approval of SFS. SFS will simultaneously approve and reconcile the statements and record the transactions on the student's account.

Implementation Date: July 1, 2014

Responsible Auditee: Jessica Cohen, Ass't. VP-Fin. Affairs & University Controller

Prior Audit Recommendations

Our examination generally includes a follow-up on findings and recommendations of prior internal audits, where the subjects of such findings are applicable to the scope of the current audit being performed.

Within the past three fiscal years, our office has not conducted any audits related to the university's student accounts receivable operations. Accordingly, a follow-up on prior audit findings is not applicable.

CONCLUSION

Based on our observations and tests performed, we are of the opinion that the university's collection activities for delinquent student accounts were being conducted in general compliance with all applicable laws, rules, regulations, policies, and procedures, and sound business practices. We have made several recommendations to strengthen existing internal controls which we believe are cost-effective and can be readily implemented.

We wish to thank the staff of the Controller's Office for their cooperation and assistance which contributed to the successful completion of this audit.



Morley Barnett, CPA, CFE
Inspector General

Audit Performed By: Mike Hewett, CIA, CBA, CFSA, CGAP
Allaire Vroman