

**University of Kansas
School of Business**

An Evaluation of Accounting for,
and Disposition of, Differential Tuition

November 8, 2010

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The Office of the Provost has engaged **BKD, LLP** to evaluate the accounting for, and disposition of, Differential Tuition (“DT”) charged by the University of Kansas School of Business from fiscal years 2005 through 2010. A group of students has recently expressed concerns about the spending and administration of the DT program. This report addresses the questions asked by the Office of the Provost, questions raised by students and questions independently identified by BKD as we investigated the issues that are the subject of this report.

The purpose of our work is to determine whether DT was spent in accordance with the requirements of the DT Proposal and to summarize the expenditures by DT Proposal category. Any expenditures identified that do not fit within the DT Proposal expenditure categories were investigated and are disclosed in this report. Our procedures included:

- review of the University of Kansas School of Business DT Proposal
- interviews of School of Business students, faculty and staff
- acquisition and analysis of detailed records of DT spending
- comparison of DT spending from fiscal 2005 through fiscal 2010 to the spending categories described in the DT Proposal
- inquiry of various staff regarding transactions of interest identified during our comparison of DT expenditures to the DT Proposal

For the most part, DT funds were expended in ways that are consistent with the spending categories described in the DT Proposal. The DT Proposal describes broad categories of eligible spending and specific prohibitions against spending for research and salary increases for faculty that were on staff before implementation of the DT Proposal. This report describes certain expenditures that BKD identified that appear to be contrary to the DT Proposal. These include faculty salaries of approximately \$28,000 and other operating expenditures (“OOE”) of approximately \$32,000. All combined, these items represent approximately two tenths of 1% of total DT fund expenditures. There could be differences of opinion about whether or not these expenditures conflict with the expenditure guidelines of the DT Proposal. These potential exceptions and related assumptions and analyses are discussed in detail in the “Payroll Exceptions” and the “Other Operating Expenditures Exceptions” sections of this report.

The Differential Tuition Proposal

BKD has been advised that the Kansas Board of Regents approved the Differential Tuition Proposal (“DT Proposal”) in June of 2004. BKD has obtained the DT Proposal from the official web site of the Office of Institutional Research and Planning of the University of Kansas. Although the document name implies that the DT Proposal represents a proposed plan, the approved document describes a program that has been implemented by the School of Business beginning fiscal 2005 and continues as of the date of this report.

The DT Proposal resulted in an incremental level of tuition charge per credit hour for all students enrolled in University of Kansas School of Business, to be added to the base tuition structure already in place for enrolled students. The annual rate of incremental tuition initially approved for fiscal year 2005 was \$75.00 per enrolled credit hour for undergraduate students. The \$136.80 per enrolled credit hour for masters level students is comprised of the \$75.00 increment plus \$61.80 per credit hour previously approved for masters level students. The DT Proposal states: “The Committee supports the use of the Higher Education Price Index (HEPI) to increase the School’s differential tuition each year to offset the effects of inflation.”¹ The DT Proposal discusses parameters under which the School of Business is to spend the DT revenues to accomplish certain goals for the benefit of the students.

A close reading of the DT Proposal is required to evaluate the appropriateness of DT expenditures. The DT Proposal includes numerous goals, plans, examples of potential expenditures and general categories of expenditures to be made. The DT Proposal states: “The specific uses are subject to change, but the general categories are not (without consultation with students).”² It also states: “**Goals:** The goals of the School of Business differential tuition program are to (1) improve educational programs and advising for students, (2) enhance employment opportunities and starting salaries of graduates, (3) elevate the school of business undergraduate program to top-25 status, and to (4) improve the competitive position of the graduate programs.”³

Throughout the DT Proposal, language is used to describe proposed elements that are often qualitative in nature, such as:

- “. . . to insure that KU Business graduates are fully competitive . . .”⁴
- “Better **academic** advising . . .”⁵
- “Database improvements . . .”⁶
- “Enhanced contact throughout alumni career.”⁷
- “Better scheduling and interview processes.”⁸
- “. . . increasing the educational experience and marketability of those student assistants to the business community.”⁹
- “This will improve alumni relations by assisting graduates throughout their careers.”¹⁰

¹ DT Proposal page 14.

² DT Proposal page 5. BKD is not aware of any consultation with students regarding changes to the DT Proposal and assumes that there were no such changes resulting from student consultations.

³ DT Proposal pages 5 and 6.

⁴ DT Proposal page 3.

⁵ DT Proposal page 9.

⁶ DT Proposal page 9.

⁷ DT Proposal page 9.

⁸ DT Proposal page 9.

⁹ DT Proposal page 10.

¹⁰ DT Proposal page 11.

While these phrases communicate desirable results, their qualitative nature does not make them objectively measurable. However, the DT Proposal also describes goals of improving curriculum by adding new courses, electives and majors. It details categories of spending anticipated to meet specified needs. While the spending of funds does not guarantee goal achievement, evidence of progress against many goals can be observed. Measurement of progress against certain goals of the DT Proposal follows in the “Overview of Relevant Findings.”

Active participation by a student advisory committee with the School of Business is an important component to oversight of DT spending. This is especially true because the DT Proposal is broadly written, and a wide variety of conflicting interpretations of its contents can be supported. Disagreements about future spending under the DT Proposal can only be fairly managed through a process where student representatives and the School of Business administration discuss spending plans and openly report actual expenditures against those plans.

Overview of Relevant Findings

1. Curriculum

The DT Proposal states: “We offer the following to give students an idea of the Committee’s thinking and scope of what is possible:

- A new major in Marketing
- A new major in Information Systems
- A new major in Management
- A strengthened Accounting major
- A strengthened Finance major”¹¹

The following table shows the progress of offerings of majors by the School of Business for academic years (“AY”) 2004 through 2010:

Table 1

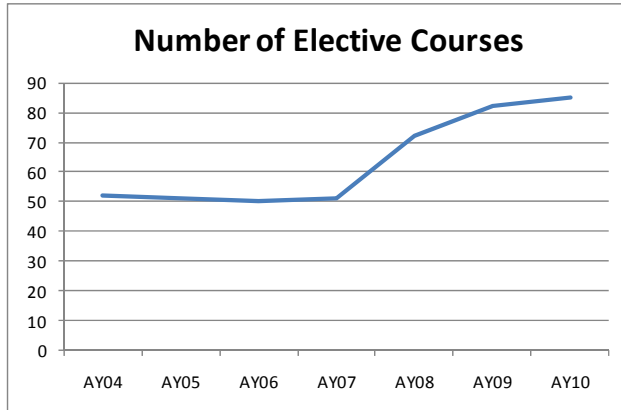
Major	Academic Year Offerings						
	AY04	AY05	AY06	AY07	AY08	AY09	AY10
Accounting	X	X	X	X	X	X	X
Business Administration	X	X	X	X	X	X	X
Finance		X	X	X	X	X	X
Information Systems*			X	X	X	X	X
Management			X	X	X	X	X
Marketing			X	X	X	X	X
Supply Chain Management					X	X	X

* The students that spoke to BKD stated that the Information Systems major would become unavailable because the primary faculty members teaching the courses for this major had left the University. Representatives of the Dean’s Office of the School of Business stated that the course requirements were currently being covered with existing faculty and newly hired instructors, and that both the undergraduate Information Systems major and the MBA emphasis have been, and remain, available to students.

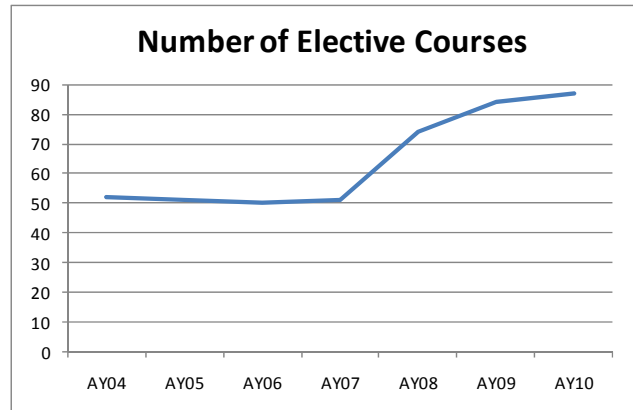
¹¹ DT Proposal page 6.

The DT Proposal states: “Strengthen the MBA and MAIS [Master of Accounting] programs by increasing the number and variety of electives.”¹² The following charts reflect the elective offerings for the full-time and part-time MBA programs for AY 2004 through 2010:

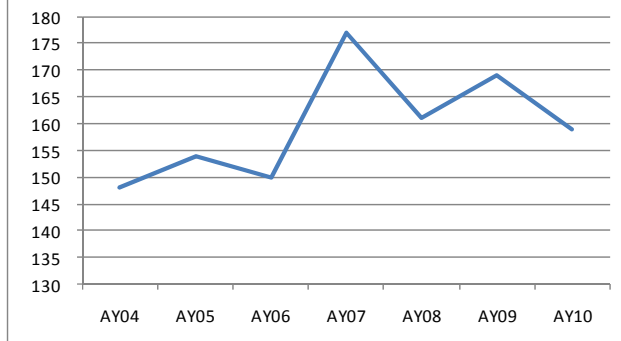
Full-Time MBA Elective Courses*



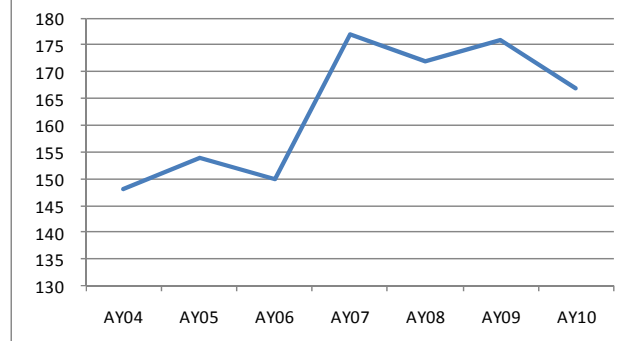
Part-time MBA Elective Courses*



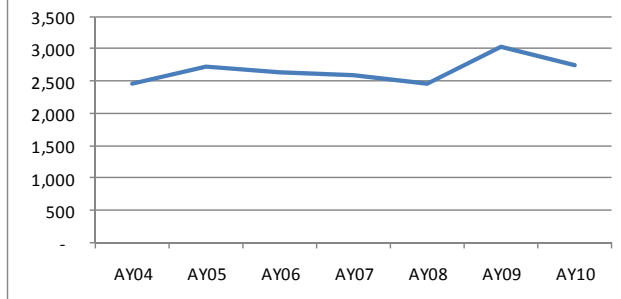
Number of Total Elective Sections



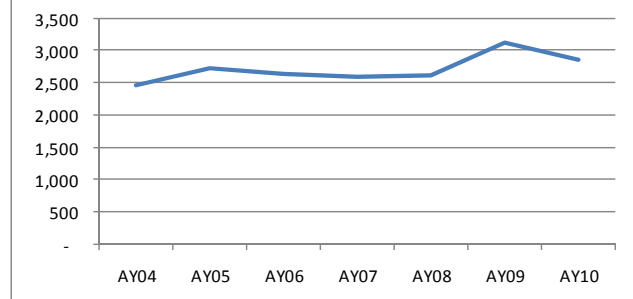
Number of Total Elective Sections



Number of Total Seats Enrolled in Elective Courses



Number of Total Seats Enrolled in Elective Courses



* Electives defined as master’s level (700 and 800 level) courses not specifically identified as required core or concentration/breadth courses. Such courses may count as electives for multiple Master’s degrees.

There are some annual increases and decreases in the statistics in these charts. Increase in the number of electives available reflects strong growth in AY2008 and AY2009. The number of sections for all courses reflects strong growth in AY2007, but declined somewhat in AY2008 and AY2010. This decline primarily relates to the study abroad Italy program moving to the University of Iowa beginning AY2008. These courses are still available to University of Kansas students, but

¹² DT Proposal page 7.

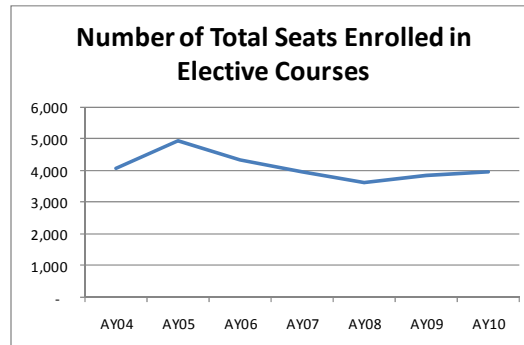
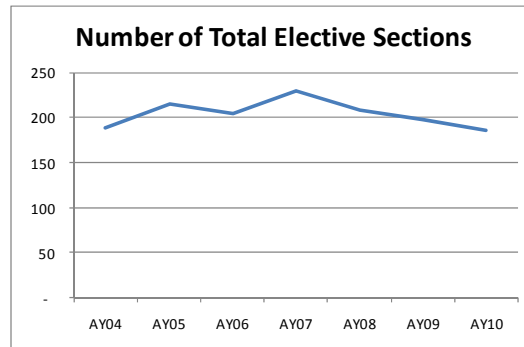
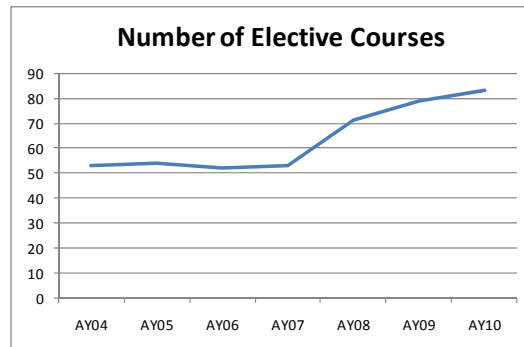
they are now taken through the University of Iowa, and therefore, are not included in the University of Kansas course data.

Total enrollment increased in some years and declined in others, affecting the number of sections offered. Factors external to the School of Business can also influence trends in enrollment. Overall, the statistics reflect an AY2010 net increase in enrollment, number of sections available and number of electives available, as compared to the AY2004 base year.

Some students expressed disappointment to BKD that MBAs were usually required to take elective courses at the Edwards campus, rather than the campus in Lawrence, Kansas, in order to complete their degree. The DT Proposal acknowledges the need for more course offerings in Lawrence. One alternative for addressing remaining student concerns would be for them to participate on the Student Differential Tuition Advisory Committee that the administration has reestablished. Input of the students could help the School of Business continue to prioritize ways in which future spending of DT can meet the continuing needs of the students.

The following charts reflect the electives offerings for the masters of accounting program for AY 2004 through 2010:

Master of Accounting Elective Courses*



* Electives defined as master's level (700 and 800 level) courses not specifically identified as required core or concentration/breadth courses. Such courses may count as electives for multiple Master's degrees.

The number of electives offered to Master of Accounting majors reflects strong growth in AY2008 and AY2009. The total sections available increased to a high in AY2007 and then by AY2010 declined to levels approximately equal to AY2004 levels. The enrollment in the elective courses for the program increased in AY2005, declined from AY2005 through AY2008 and then increased during AY2009 and AY2010. The AY2010 levels of electives enrollment in the Master of Accounting program were approximately the same as in AY2009. The decline in the number of Master of Accounting electives courses appears primarily driven by the fact that certain courses that were previously electives became required for the major.

These charts are designed to quantify the opportunity for students to take elective courses. The data on these charts is not additive between programs because many electives are available to the full-time MBAs, part-time MBAs and Master of Accounting students, and such common elective courses are duplicated in the data to reflect availability of elective courses for each program.

Exhibit A includes BKD's summary of DT Proposal expenditures by DT Proposal Category. The data shows that payroll expenditures for faculty of more than \$16 million were made from fiscal 2005 through fiscal 2010. This amount represents approximately 55% of total DT fund expenditures during the period.

Additional DT Proposal categories for which spending of DT funds is anticipated by the DT Proposal are presented below. Based on *Exhibit A*, the spending on each of these DT Proposal categories is quantified.

2. Experiential Learning

BKD learned about many experiential learning programs available to students. We also reviewed documentation for travel and other expenses for students participating in many of these programs. Some of the experiential learning opportunities have little or no cost associated with them. Others are experiences that students participate in while completing the requirements of certain courses, including courses in tax research, business consulting, entrepreneurship, and portfolio management. Examples of other experiential learning opportunities include:

- Jayhawks on Wall Street/Finance Scholars Program
- X-plore and MBA Treks trips to visit businesses in other markets
- Study abroad opportunities
- Student competitions and conferences
- Guest speakers
- Internships with companies

Approximately \$138,000 of expenditures from DT funds has been recorded from fiscal 2005 through fiscal 2010 for experiential learning supported activities.

3. Advising and Program Administration

Approximately \$1,732,000 in payroll and \$38,000 in other expenditures, such as advising office equipment, supplies and printing, were identified by BKD from DT funding during the fiscal 2005 through fiscal 2010 period.

4. Career Services

Approximately \$782,000 in payroll and \$43,000 in other expenditures such as Career Services office equipment, supplies, printing and travel, were identified by BKD from DT funding during the fiscal 2005 through fiscal 2010 period.

5. Student Financial Support

Approximately \$2.9 million in payroll and \$1.8 million in other expenditures were identified by BKD from DT funding during the fiscal 2005 through fiscal 2010 period. Payroll represents graduate teaching and research positions and hourly work for students. Other expenditures represent scholarships and financial aid. Administration in the School of Business has placed more focus on providing students teaching assistant and research positions rather than out right scholarships as it is believed that students' learning opportunities are enriched by the opportunity to interact directly with faculty.

6. Other Operating Expenses

Approximately \$518,000 for this category of expenditures was classified by BKD from DT funding during the fiscal 2005 through fiscal 2010 period. These items included expenditures for items such as supplies, communications, postage and delivery and furniture and equipment.

7. Technology

Approximately \$428,000 in payroll and \$976,000 in other expenditures were identified by BKD from DT funding during the fiscal 2005 through fiscal 2010 period. Payroll represents technology positions. Other expenditures include Bloomberg terminal purchases in early years, and more recently, web site and database activities.

8. Facilities

Approximately \$490,000 in other expenditures for facilities was identified by BKD from DT funding during the fiscal 2005 through fiscal 2010 period. These expenditures were for renovations, repairs and maintenance to Summerfield Hall, the location of the School of Business. Accounting records indicate that these expenditures were for remodeling of the Summerfield Hall first and second floors, Rooms 102 to 110, Room 124, Room 226 (HVAC), Room 420 and other unspecified rooms. No expenditures for construction on a new building are believed to have occurred, other than \$1,829 of expenditures on initial materials related to new building fundraising, which are described in the Other Operating Expenditures section of this report.

BKD also reached conclusions in the other areas, as follows:

9. Were the student consultation requirements of the DT Proposal achieved?

Student consultation was reportedly actively sought during the formation and implementation period of the DT Proposal, but was discontinued beginning in 2006. The rationale for discontinuing the student consultation requirement cannot be definitively determined as our research and interviews have resulted in two diametrically opposed recollections of events. On one hand, we have been told by a number of individuals that the student consultation requirement was rolled into the student advisory committee formed to address the building of a new business school building. However, that committee was disbanded in 2008 when economic issues brought an end to fund raising. An opposing recollection voiced by some individuals is that a member of the business school administration disbanded the committee as he felt it was not needed and that the requirement to report on DT spending was being accomplished through student government. The administration has stated its intent to reinstate a student advisory committee. See the "Student Differential Tuition Advisory Committee" section of this report for a full discussion of this topic.

BKD has been advised that the Differential Tuition Advisory Committee has been reconvened by the School of Business with nominations and feedback from the Undergraduate Business Council and the Graduate Business Council. The Committee has held its first organizational meeting on October 22, 2010. The School of Business will issue a semi-annual or annual report to students on differential tuition expenditures, depending on the recommendation of the Student Advisory Committee.

10. Were DT funds expended in accordance with the DT Proposal?

For the most part, DT funds were expended in ways that are consistent with the spending categories described in the DT Proposal. The DT Proposal describes broad categories of eligible spending and specific prohibitions against spending for research and salary increases for faculty that were on staff before implementation of the DT Proposal. This report describes certain expenditures that BKD identified that appear to be contrary to the DT Proposal. These include faculty salaries of approximately \$28,000 and other operating expenditures (“OOE”) of approximately \$32,000. All combined, these items represent approximately two tenths of 1% of total DT fund expenditures. There could be differences of opinion about whether or not these expenditures conflict with the expenditure guidelines of the DT Proposal. These potential exceptions and related assumptions and analyses are discussed in detail in the “Payroll Exceptions” and the “Other Operating Expenditures Exceptions” sections of this report.

11. Faculty Salary Increases

The DT Proposal states: “Funds [DT funds] will not be used for such items as current faculty salaries increases . . .”¹³ BKD interprets this statement to mean that DT funds cannot be used to pay salary increases for faculty existing before implementation of the DT Proposal, but that DT funds may be used to pay salary increases of any faculty teaching new courses added as part of the DT program. Some salary increases were paid to three faculty members who existed prior to the DT Proposal implementation and who continued to teach courses that existed prior to the DT Proposal implementation. However, these salary increase amounts were more than offset, or were refunded, by general fund payroll spending. See the “Payroll Exceptions” section of this report for additional detailed analysis.

12. New Hires

Full-time-equivalent (“FTE”) employee statistics of the School of Business are included in *Exhibit B* of this report. This exhibit includes statistics accumulated by the School of Business and the results of a reasonableness test that BKD performed using our database of faculty and staff.

Was there a change in the level of compliance with the spending priorities identified in the DT Proposal from the period before the fiscal 2009 budget cuts, as compared to after those budget cuts?

BKD analyzed whether there was a change in the level of compliance with the spending priorities identified in the DT Proposal from the period before the fiscal 2009 budget cuts, as compared to after those budget cuts. We found that for the most part, DT funds were expended in ways that are consistent with the spending categories described in the DT Proposal, including before, during and after fiscal 2009. Some potential exceptions and related assumptions and analyses are discussed in detail in the “Payroll Exceptions” and the “Other Operating Expenditures Exceptions” sections of this report. The timing of these potential exceptions reflects no discernable pattern in relation to the timing of the fiscal 2009 budget cuts.

Payroll Exceptions

While the DT Proposal describes goals, principles and examples of desirable spending, it lacks specific definition of terms and definition for measurement of goal achievement. There is room for interpretation regarding meaning throughout the document. In order to measure whether payroll expenditures have complied with the DT Proposal certain definitions and assumptions must be made, and this report seeks to state BKD’s assumptions and definitions explicitly so that the reader can understand and evaluate the basis for BKD’s conclusions.

¹³ DT Proposal page 5.

This report defines and uses the following terms:

- (“New Faculty”) means faculty who did not teach any courses in AY2004, but did in subsequent years.
- (“Existing Faculty”) means faculty who did teach in AY2004.
- (“New Courses”) means undergraduate or masters courses added to the curriculum after fiscal 2004. Courses having a unique course number that did not exist before implementation of the DT Proposal are considered to be New Courses.
- (“Old Courses”) means courses already existing at the School of Business during fiscal 2004, based on course number.

Changes to course numbers for administrative reasons, as communicated to BKD, when the course itself is assumed not to have changed, were accounted for so that such courses were not misrepresented in the course data. The number of sections for a course, or the number of different faculty teaching sections of the same course, did not increase the count of New Courses for purposes of analyzing questions about the number of New Courses.

We started our analysis with the assumption that Existing Faculty would be paid with general funds, and that New Faculty would be paid with DT funds, the (“Segregation of Funds Assumption”). We assumed that under the Segregation of Funds Assumption, any DT funds paid to Existing Faculty could result in salary increases being paid to Existing Faculty with DT funds. We also assumed that if Existing Faculty began to teach New Courses, that such Existing Faculty would be eligible to be paid with DT funds because a stated purpose of the DT Proposal was to use the DT funding to enable the offering of New Courses. These assumptions resulted in identification of \$577,516 of DT funds paid to Existing Faculty who were not teaching New Courses from fiscal 2005 through fiscal 2010. This fact was initially considered to be potentially inconsistent with the intent of spending goals described by the DT Proposal, although it was not explicitly prohibited.

Another analysis result is that \$3,606,136 of DT funds was paid from fiscal 2005 through fiscal 2010 to New Faculty for teaching Old Courses. While these payroll amounts are DT funds paid to New Faculty, one could interpret that they are not curriculum improvements because they are being used to teach courses that already existed before the implementation of the DT Proposal.

However, a counter argument offered by the School of Business Associate Dean is that when New Faculty members are paid to teach Old Courses, it frees other Existing Faculty to teach New Courses.

A broader perspective on payroll expenditures can be used to better address these issues. BKD expanded its analysis to the full population of payroll expenditures of general funds and DT funds to both Existing Faculty and New Faculty. This analysis demonstrated that the initial Segregation of Funds Assumption was not the actual pattern for payroll distribution in any year. The DT Proposal does not state that there must be a segregation between which faculty are paid with general funds versus DT funds. What the DT Proposal does state is that DT funds should be spent to accomplish “curriculum improvements.” We interpret that New Courses are one measure of curriculum improvements.

Given some uncertainty about whether the DT Proposal goal of funding curriculum improvements means that DT funds could not be paid to faculty teaching Old Courses, BKD then measured the magnitude and direction of payroll expenditures from general funds and DT funds to Existing Faculty and New Faculty. The amounts in Table 2 that follows represent DT funding paid to faculty

teaching Old Courses, while Table 3 amounts represent general funding paid to faculty teaching New Courses. The results included the following observations:

Table 2
Uses of DT Funding
Fiscal 2005 through Fiscal 2010

	Existing Faculty	New Faculty
Old Courses	\$577,516	\$3,606,136
New Courses	This case is consistent with the use of DT funds for curriculum improvements	This case is consistent with the use of DT funds for curriculum improvements

Table 3
Uses of General Funding
Fiscal 2005 through Fiscal 2010

	Existing Faculty	New Faculty
Old Courses	This is an expected case under the Segregation of Funds Assumption	This case does not impact the use of DT funds
New Courses *	\$12,079,945	\$950,790
* These amounts includes an allocation of annual salary between Old Courses and New Courses for instances where Faculty Members teach both Old Courses and New Courses.		

If one subscribes to the Segregation of Funds Assumption, then one should be concerned about whether DT funds are being paid to Faculty teaching Old Courses. However, the two tables above demonstrate that the use of general funds to teach New Courses (\$12,079,945 plus \$950,790, or 17.2% of total faculty payroll) exceeds the use of DT funds to teach Old Courses (\$577,516 plus \$3,606,136, or 5.5% of total faculty payroll). Therefore, if one subscribes to the Segregation of Funds Assumption, this analysis demonstrates that more general funding was paid for the teaching of New Courses than DT funding was paid to teach Old Courses, so violation of the Segregation of Funds Assumption has not been to the detriment of the DT Proposal objective of funding curriculum improvements through the offering of New Courses.

BKD also acknowledges that increasing the number of sections of Old Courses would increase the population of electives available to students. Increasing electives is consistent with the goals of the DT Proposal, according to the School of Business administrative officials. Restricting DT funding exclusive to the teaching of New Courses was not a stated requirement of the DT Proposal.

Existing Faculty Salary Increases

A number of faculty members have received salary funding from both, DT funds and general funds. DT funding of payroll to these faculty members from fiscal 2005 through fiscal 2010 was used to fund \$121,530 of salary increases to four Existing Faculty members teaching Old Courses. However,

since these faculty members were lecturers, we have assumed that an increase in pay associated with teaching more course sections would not represent a pay increase prohibited by the DT Proposal. In the second section of *Exhibit D*, we have calculated the portion of salary increases resulting from a per course pay increase in DT funding for the number of courses taught in the base year. The result is that three of these four lecturers received a total of \$31,692 in salary increases from DT funds.

However, these salary increase transactions are included in the \$577,516 paid to Existing Faculty members who were not teaching New Courses discussed in the previous report section. The \$577,516, including the \$31,692 of salary increases, was more than offset by the \$950,790 of New Faculty teaching New Courses receiving total pay from general funds, rather than DT funds. In other words, the prohibited increases in salary have been refunded with general funding of other salaries to faculty members that would have otherwise been paid with DT funds.

Summer Compensation

BKD has also identified a number of Existing Faculty members who were paid with DT funds for work performed during the summer of 2005. Two of these faculty members were paid a total of \$27,746 during the summer of 2005 during which time the course numbers which these faculty were assigned were for PhD level curriculum “doctoral dissertation.” BKD has assumed that this DT pay during the summer of 2005 was related to the research of PhD students. We have also assumed that such use of DT funds is inconsistent with the DT Proposal, which discusses improvements to curriculum for undergraduate and masters level students, but excludes research. *Exhibit E* reflects additional information about this expenditure of \$27,746 of payroll.

Other Operating Expenditures Exceptions

BKD acknowledges that different readers of the DT Proposal, given the same facts about any given expenditure, might reach different conclusions regarding whether that expenditure is consistent with the requirements of the DT Proposal. BKD focused its transaction testing with the objective of identifying OOE that were inconsistent with the expenditure categories described in the DT Proposal. Acknowledging that different assumptions or interpretations might impact the evaluation of expenditures questioned, we have stated the assumption or other basis for our conclusion on each expenditure evaluation, which is included for evaluation by the reader of the report.

BKD used text searches of the transaction descriptions, account titles, vendor names, account names and cost center names within the population of OOE transactions to categorize transactions into groups of related transactions and to search for transactions of interest for further investigation. We then selected samples of transaction documentation to review and discuss with School of Business personnel.

Some interviewees told BKD that they were concerned about DT funds being diverted to a new building fund, so BKD used keyword searches of expenditure transaction descriptions to find expenditures related to building planning, fundraising, or related transfers. In the case of new building expenditures, we located one transaction related to this topic, which was \$1,829 for printing of floor plan brochures and apparent fundraising materials. Although the DT Proposal discussed the possibility of a new building fund, it did not specify new building expenditures as a category of DT Proposal expenditures, so BKD highlighted this expenditure as being inconsistent with the spending categories of the DT Proposal.

Other expenditures inconsistent with the DT Proposal categories are also summarized in the table below:

Table 4

Expenditure Type	Amount
New building marketing materials	\$ 1,829
Research related faculty expenses for conferences and publication	6,058
Administrative costs for AACSB accreditation and related fees	24,150

A detailed list of these OOE is included in *Exhibit F*.

The DT Proposal prohibits spending on research other than student assistants. BKD assumed this to mean that research activities performed by faculty would not be funded with DT. Expenses for faculty travel to conferences, submissions to journals and related expenses totaling \$6,058 were identified.

Administrative costs for AACSB accreditation of the School of Business were paid with DT funds. These are ongoing annual costs that would have been paid with general funds before the existence of DT funding. While these are necessary costs for the School of Business that are not directly prohibited by the DT Proposal, they represent an example of DT funding for items that would have previously been paid with general funds. Using DT funding for recurring expenses previously paid with general funding depletes availability of DT funding for attainment of other goals listed in the DT Proposal.

Advertising costs and related printing and postage totaling \$126,180 were identified. However, the DT Proposal lists “School publications and publicity” as an example of use of DT funds.¹⁵

BKD has identified \$32,037 of operating expenditures that are not consistent with the DT Proposal, out of total reported expenditures of \$4.9 million. Expanding the sample size could result in the identification of additional expenditures that are inconsistent with the DT Proposal categories, but is unlikely to result in a significant increase in findings relative to the \$4.9 million total expenditures.

Classification of Expenditures

BKD’s resulting classification of transactions by DT Proposal category is included in *Exhibit A* to this report. As explained, BKD was unable to classify certain expenditures by DT Proposal category, but presented these items in separate line items in *Exhibit A*. For example, *Exhibit A* reflects \$2.6 million of DT funding for administrative personnel, but the DT Proposal category supported by these salaries and wages is not identified by each DT Proposal category. The DT Proposal lists examples of spending on staff support. The DT Proposal does not specifically limit such expenditures.

Exhibit C reflects the classification of the DT Proposal transactions by the School of Business. Like the BKD classifications, the *Exhibit C* classifications do not perfectly correspond to the DT Proposal categories, although they match up with most of the DT Proposal categories.

¹⁵ DT Proposal page 10.

There are differences between *Exhibit A* and *Exhibit C* classifications for a number of reasons, but overall, those differences are not significant. Reasons for differences include the fact that some transactions could be classified under more than one DT Proposal category and differences exist between the BKD classification and the School of Business classification. Another difference results from the fact that certain transactions are categorized by the School of Business that BKD was unable to classify into a specific DT Proposal category. For example, it is not possible for BKD to determine the degree to which various DT Proposal categories benefited from supplies expenditures, but the School of Business accounting personnel are in a better position to make that determination.

BKD has reviewed a sample of transaction classifications by the School of Business. We have also compared the annual total by category accumulated by the School of Business to the annual totals by category accumulated by BKD. This comparison between *Exhibit A* and *Exhibit C* leads us to conclude that the School of Business classification of transactions are reasonable, except that BKD has identified portions of these DT fund expenditures that are not consistent with the requirements of the DT Proposal. The specifics of these items are explained in the “Payroll Exceptions” and the “Other Operating Expense Exceptions” sections of this report.

Other Inconsistencies with the DT Proposal

The DT Proposal states: “The Committee supports the use of the Higher Education Price Index (HEPI) to increase the School’s differential tuition each year to offset the effects of inflation. Such increases will be necessary to provide salary increase for faculty members that are funded out of differential tuition.”¹⁶ Some students interviewed by BKD were concerned about the difference in growth indices used to calculate the growth in DT per credit hour.

The tables that follow compare the annual increase in the HEPI to the increase actually used to calculate the DT charged per credit hour.

Table 5

Undergraduate Per Credit Hour DT Fee, Actual versus HEPI Indexed						
	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
Actual:						
Per Credit	\$ 75.00	\$ 78.00	\$ 81.10	\$ 86.00	\$ 91.15	\$ 96.60
% Change		4.0%	4.0%	6.0%	6.0%	6.0%
HEPI:						
Per Credit	\$ 75.00	\$ 78.83	\$ 81.04	\$ 85.09	\$ 87.05	\$ 87.83
% Change		5.1%	2.8%	5.0%	2.3%	0.9%

¹⁶ DT Proposal page 14.

Table 6

Graduate Per Credit Hour DT Fee, Actual versus HEPI Indexed						
	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
Actual:						
Per Credit	\$ 136.80	\$ 142.25	\$ 147.90	\$ 156.80	\$ 166.20	\$ 176.15
% Change		4.0%	4.0%	6.0%	6.0%	6.0%
HEPI:						
Per Credit	\$ 136.80	\$ 143.78	\$ 147.81	\$ 155.20	\$ 158.77	\$ 160.20
% Change		5.1%	2.8%	5.0%	2.3%	0.9%

The response from the School of Business regarding the difference between the use of the HEPI index and the actual indexing of DT follows:

The members of the committee clearly understood the need for the rate of course fees to increase given that most of the fees would go to support faculty and staff salaries and benefits. The “support” for using HEPI was primarily to show an understanding that the fee would not be fixed at \$75.

Per the Provost’s Office, to complement the stability provided by the Four-year Tuition Compact, the school’s course fees rate increases at the same rate of course fees University-wide. This was requested by KU when the Tuition Compact was implemented and was approved by the Board of Regents.

The Provost’s Office confirmed that the rate of annual DT fee increase is set by the University and is approved by the Regents.

Had HEPI been used to index DT rate increases per credit hour, there would have been very little change in revenues generated from fiscal 2005 through fiscal 2008. However, calculating the DT fees per credit hour using the HEPI index would have resulted in approximately \$1 million less in DT revenue from fiscal 2009 through fiscal 2010, based on budgeted course hours scheduled each year.

Based on budgeted credit hours, the following amounts of DT funding were expected to be generated by undergraduate and graduate students from fiscal 2005 through fiscal 2010:

Budgeted Undergraduates	\$22.9 million
Budgeted Graduates	<u>9.0 million</u>
Budgeted Total	<u>\$31.9 million</u>
 Actual Total	 <u>\$31.1 million</u>

BKD has not attained actual credit hours data, but actual DT revenue fell short of budgeted (based on budgeted credit hours) by approximately \$800,000.

Student Differential Tuition Advisory Committee

The DT Proposal calls for a Student Differential Tuition Advisory Committee. “The charge of this committee is to ensure that the School of Business is accountable to students for the use of the differential tuition.”¹⁷ (Emphasis in original)

The response from the School of Business to criticism that it failed to assemble and communicate with the Student DT Advisory Committee follows:

- *The student advisory committee met throughout the implementation of program enhancements funded by course fees.*
- *The method of reporting on course fees evolved over time. The evolution led to the committee no longer meeting in 2006.*
- *After the proposed program enhancements were implemented, we moved to other ways of informing our students about the use of course fees. We did not ensure that the student advisory committee remained active. We acknowledge these alternatives were not effective and have already taken steps to address these shortcomings.*
- *The school recognizes this is an issue and will reconvene the committee starting in fall 2010. The school communicated this commitment to the graduate students in late April.*

The DT Proposal states: “The Dean will prepare a semi-annual account of how differential tuition funds have been used for electronic dissemination to all business students.”¹⁸ The report responsive to this requirement has not historically been created or distributed. The School of Business has stated its intention to reinstitute the Student Differential Advisory Committee that is described in the DT Proposal.

Student consultation was reportedly actively sought during the formation and implementation period of the DT Proposal, but was discontinued beginning in 2006. The rationale for discontinuing the student consultation requirement cannot be definitively determined as our research and interviews have resulted in two diametrically opposed recollections of events. On one hand, we have been told by a number of individuals that the student consultation requirement was rolled into the student advisory committee formed to address the building of a new business school building. However, that committee was disbanded in 2008 due to economic issues. An opposing recollection voiced by some individuals is that a member of the business school administration disbanded the committee as he felt it was not needed and that the requirement to report on DT spending was being accomplished through student government.

Recommendations for Internal Controls and Reporting

The standard internal financial reporting of the School of Business does not report financial receipts and expenditures by fund. Accounts and cost centers are not established that correspond to each of the DT Proposal categories. The process of accumulating financial results for the DT fund requires manual intervention so that accounting personnel can identify and accumulate transaction information required to evaluate spending by DT Proposal category. Therefore, it is cumbersome for anyone to monitor how DT funds are spent throughout the year.

¹⁷ DT Proposal page 14.

¹⁸ DT Proposal page 15.

The internal budget of the School of Business does not differentiate between general funding and DT funding, although the University budget does. The source of funding for individual expenditures in the School of Business is determined at the time they are expended. These determinations are routinely made by the office of the Director of Financial Operations or may be made by the Director of Financial Operations based on input from a variety of others in the School of Business. School of Business personnel have described that the availability of funds at the time of expenditure is a determining factor regarding whether obligations are paid with general funds or DT funds.

In the School of Business, the general fund is also called the 99 fund and the DT fund is called the 96 fund. In order to assure that DT fund expenditures can be reported on a periodic and routine basis, such as monthly, a change in the School of Business accounting for the 96 fund should be undertaken. Financial reports that reflect receipts and expenditures in line items that correspond to the DT Proposal would be desirable. This approach would utilize accounts and cost centers that are mapped to financial statements that could be organized to correlate with the DT Proposal expenditure categories. Fund 96 financial statements organized in this way could be monitored by appropriate executive positions in the School of Business for appropriateness of spending, and could be used to monitor financial results against budgets. Ideally, the internal School of Business detailed budget would be segregated between DT Proposal funds and other funds. This would enable a comparison of budget to actual performance throughout the year for the DT fund. Such an accounting system should also enable one to efficiently obtain detailed transaction level reports so that individual transactions included in any financial statement line items can be identified when necessary. This accounting approach will enhance the ability of the School of Business to better monitor and control its operations and to report results to interested parties.

Summary

Some concerns raised by the students that spoke to BKD may remain. The DT Proposal spending cannot guarantee resolution of all student expectations. Measuring the degree of success of the DT program spending on student issues of concern would also require an assessment of how those issues would have been negatively impacted had the DT Proposal spending to date not occurred. Such an analysis is beyond the scope of this report.

One alternative for addressing remaining student concerns would be for them to participate on the Student Differential Tuition Advisory Committee that the administration has committed to reestablish. Input of the students could help the School of Business continue to prioritize ways in which future spending of DT can meet the continuing needs of the students.

Active participation by a student advisory committee with the School of Business is an important component to oversight of DT spending. This especially true because the DT Proposal is broadly written, and a variety of conflicting interpretations of its contents can be supported. Disagreements about future spending under the DT Proposal can only be fairly managed through a process where student representatives and the School of Business administration discuss spending plans and openly report actual expenditures against those plans.

Appendix

BKD Analysis Approach

BKD representatives met with the KU Steering Committee at the start of the process. The Steering Committee consisted of five members, including a representative from the Office of the Provost, a KU staff person, a faculty member from the School of Business, an MBA student and an undergraduate student from the School of Business.

All undergraduate, masters and Ph.D. students in the School of Business were issued an email invitation to meet or speak with BKD representatives at a session held in Summerfield Hall on September 30, 2010. This message included contact information for the BKD representatives for students who had information and concerns to share, but were unable to attend the meeting. The interview process began with a session for all interested students to provide input to BKD. Interviews of approximately ten faculty and staff were then conducted by BKD. Results of these interviews led to several other interviews. After evidence was analyzed, the School of Business Dean, William Fuerst; Associate Dean, Keith Chauvin; and Director of Finance, Karla Williams were also interviewed.

BKD interviewed 10 faculty members on October 11 and 12, 2010. Interviewed faculty members were selected at the request of BKD using two different criteria. First, BKD selected six faculty based on the suggestions of students during their September 30, 2010 comments to BKD. Simultaneously, BKD requested that the Provost's Office identify faculty that could describe "experiential learning" activities, so that BKD could identify such activities that might be funded with DT operating expenditures.

To broaden our understanding about concerns that have been raised by students we asked students, faculty and staff about their knowledge and opinions concerning DT. We made ourselves available to meet with students on September 30, 2010 and listened to the concerns of five current students. We also received telephone calls and email communications from some of these, plus several others. The student feedback was primarily from the perspective of the MBA and masters programs.

BKD asked interviewees for any positive or negative concerns and opinions regarding the DT program, including any knowledge, suspicion or rumor concerning possible expenditure of funds outside of the parameters of the DT Proposal. All input obtained was considered in BKD's evaluation of the individual expenditures for payroll and other operating expenditures.

Analysis of 2004 to 2010 DT Expenditures on Payroll

\$25.1 million of a total of \$29.9 million of DT expenditures from fiscal 2004 through fiscal 2010 are comprised of payroll expenditures. The DT Proposal includes examples of positions to be added. The DT Proposal states: "The specific uses are subject to change, but the general categories are not (without consultation with students)."¹⁹ Therefore, BKD has interpreted this to mean that the specific faculty levels discussed in the DT Proposal does not represent minimum or maximum obligations of the School of Business. The DT Proposal parameters regarding salary increases related to faculty, so much analysis of payroll related to this report involved faculty. Staff positions were also specified by the DT Proposal, but no parameters that could be tested were documented by the DT Proposal.

¹⁹ DT Proposal page 5. BKD is not aware of any consultation with students regarding changes to the DT Proposal and assumes that there were no such changes resulting from student consultations.

The overall design of the initial BKD work plan regarding payroll expenditures was to:

- 1) Determine the identities of faculty receiving compensation from DT funds.
- 2) Construct a database reflecting faculty and courses associated with enrollment in the School of Business.
- 3) Compare personnel receiving Differential Tuition fund expenditures to the database of faculty and courses to determine whether these recipients were teaching Old Courses or New Courses.
- 4) Analyze payroll expenditures to determine whether Existing Faculty received salary increases paid from DT funds.
- 5) To the extent that one might assume that Existing Faculty were expected to be paid with general funds and New Faculty were to be paid with DT funds, we measured the amount of contradiction to this assumption and evaluated whether such contradiction required additional analysis regarding DT funded payroll.

Analysis of Fiscal 2005 to Fiscal 2010 Other Operating Expenditures

\$4.9 million of OOE were spent from DT funds from fiscal 2004 through fiscal 2010. BKD obtained electronic files reflecting each individual expenditure transaction amount, date, payee, cost center description, account description and transaction description. The cost centers and accounts used by the School of Business to classify the disbursement transactions do not directly match the categories defined in the DT Proposal. BKD then structured a sampling strategy to: 1) test the accuracy of cost center, account and transaction descriptions, 2) to categorize the transactions by DT Proposal category and 3) identify transactions that did not fit into any DT Proposal category.

BKD requested supporting disbursement documentation for 225 disbursements from the population of expenditure transactions. The transaction descriptions, accounts and cost centers assigned by the School of Business to each transaction tested by BKD were consistent with supporting documentation examined by BKD. \$3.5 million from the total \$4.9 million of disbursements could be classified by DT Proposal category based on the transaction descriptions, accounts and cost centers assigned by the School of Business. Documentation for 60 of these items was specifically requested for examination by BKD.

Approximately \$400,000 of disbursements could not be classified in any way using the transaction descriptions, accounts and cost centers assigned by the School of Business. BKD requested disbursement documentation for each of these transactions of \$1,000 or more, (55 of the largest of these disbursements), comprising approximately \$200,000 of disbursements and also requested 30 other selected transactions from the remaining disbursements that comprised the other approximately \$200,000 of disbursements. While this sample was useful for identification of transactions that did not fit any DT Proposal category, it was not helpful in otherwise categorizing those expenditures by DT Proposal category.

Approximately \$1 million of other transactions could be classified into groups by using transaction descriptions, accounts and cost centers. However, it was difficult to determine to which DT Proposal category these transactions should be classified. For example, office supplies could be identified, but it was difficult to determine which DT Proposal category was supported by the use of any specific supply transaction. BKD requested supporting documentation for 80 of these disbursement transactions.

A portion of the sample selected was random and was designed to test the accuracy of account descriptions, account names and cost centers as compared to the supporting documentation. The remaining sample selections were structured to focus on groups of transactions and individual transactions that were not adequately described for classification or were considered to be transaction types more likely to be inconsistent with DT Proposal categories.

Expanding the sample size could result in the identification of additional expenditures that are inconsistent with the DT Proposal categories, but would be unlikely to result in a significant increase in findings relative to the \$4.9 million total expenditures. Since the sample was structured, based on recorded transaction information, to focus on and identify transactions inconsistent with the DT Proposal, it would be improper to project the results of the sample to the entire population and would cause an overstatement of the projected error.

Exhibit A

Differential Tuition Expenditures

	FY04	FY05	FY06	FY07	FY08	FY09	FY10	TOTL
Payroll								
Instructors	\$ 109,297.86	\$ 799,616.62	\$ 2,360,605.90	\$ 2,777,817.05	\$ 3,348,428.51	\$ 3,571,709.63	\$ 3,628,771.34	\$ 16,596,246.91
3. Advising and Program Administration	-	122,942.52	312,593.76	352,740.22	310,391.57	309,286.99	323,604.47	1,731,559.53
4. Career Services	-	-	20,160.88	127,175.89	209,862.30	205,087.98	219,404.21	781,691.26
5. Student Financial Support	-	288,651.06	334,941.76	423,697.87	374,145.42	653,069.86	848,994.21	2,923,500.18
7. Technology	-	26,197.41	87,050.43	101,313.71	47,019.07	124,272.21	42,598.94	428,451.77
Administrative Personnel	-	174,104.91	489,105.13	310,117.34	409,738.63	610,567.77	621,592.66	2,615,226.44
Total Payroll	\$ 109,297.86	\$ 1,411,512.52	\$ 3,604,457.86	\$ 4,092,862.08	\$ 4,699,585.50	\$ 5,473,994.44	\$ 5,684,965.83	\$ 25,076,676.09
Other Operating Expenses								
2. Experiential Learning	-	11,738.61	25,816.90	14,494.25	23,532.46	28,462.36	34,088.70	138,133.28
3. Advising and Program Administration	-	325.00	10,404.00	-	5,022.05	12,993.99	9,020.96	37,766.00
4. Career Services	-	-	1,559.25	500.00	7,646.71	17,190.04	15,938.85	42,834.85
5. Student Financial Support	-	18,965.80	154,978.76	854,226.44	273,721.28	177,886.29	290,451.51	1,770,230.08
6. Other Operating Expenses	-	117,690.74	109,614.40	41,093.61	38,571.44	121,177.09	89,863.27	518,010.55
7. Technology	-	154,921.03	67,961.12	241,859.68	88,878.81	214,310.20	208,132.76	976,063.60
8. Facility Improvements	-	100,314.08	8,545.00	182,504.31	124,865.33	69,033.01	4,748.47	490,010.20
Advertising	-	35,195.88	4,218.60	7,174.62	3,552.51	19,925.10	56,113.05	126,179.76
Travel Related and Meals	-	66,962.27	63,104.79	20,584.56	25,455.93	66,048.97	96,427.32	338,583.84
Subscriptions	-	10,377.38	2,392.73	5,079.46	1,375.30	5,700.00	5,698.05	30,622.92
Uncategorized	-	79,821.28	51,510.48	21,419.07	33,835.86	138,478.39	57,601.13	382,666.21
Total OOE	\$ -	\$ 596,312.07	\$ 500,106.03	\$ 1,388,936.00	\$ 626,457.68	\$ 871,205.44	\$ 868,084.07	\$ 4,851,101.29
Grand Total	\$ 109,297.86	\$ 2,007,824.59	\$ 4,104,563.89	\$ 5,481,798.08	\$ 5,326,043.18	\$ 6,345,199.88	\$ 6,553,049.90	\$ 29,927,777.38

Exhibit B

FTE Supported by Differential Tuition Funds									
	FY2003	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009	FY2010	Total FTE
Newly Created Tenure/Tenure-Track Faculty Positions									
FTE	-	-	-	11.00	-	1.00	-	-	12.00
Continuing Tenure/Tenure-Track Faculty Positions									
FTE	-	-	-	-	-	0.50	0.50	-	1.00
Newly Created Instructional Positions not Tenure-Track									
FTE	1.83	-	2.15	1.00	-	2.00	-	1.00	7.98
Continuing Instructional Positions not Tenure-Track									
FTE	-	-	-	-	-	3.00	-	-	3.00
Newly created Instructional Support staff (technicians, clinical advisers, lab instructors, librarians)									
FTE									-
Continuing Instructional Support staff (technicians, clinical advisers, lab instructors, librarians)									
FTE									-
Newly created Administrative & Miscellaneous Services (dean's office, maintenance, etc.)									
FTE	-	-	3.00	1.00	1.00	3.00	-	1.00	9.00
Continuing Administrative & Miscellaneous Services (dean's office, maintenance, etc.)									
FTE	-	-	-	-	-	-	-	0.61	0.61
Newly created Student support services (e.g. academic advisors, placement staff, etc.)									
FTE	-	-	5.00	2.00	4.00	1.00	-	-	12.00
Continuing Student support services (e.g. academic advisors, placement staff, etc.)									
FTE	-	-	-	4.00	-	-	-	-	4.00
Newly created staff positions - Technology									
FTE	-	-	1.50	1.00	-	-	-	-	2.50
Continuing staff positions - Technology									
FTE	-	-	-	-	-	-	-	0.94	0.94

	AY04	AY05	AY06	AY07	AY08	AY09	AY10
Total Instructors	126	118	126	132	138	124	108
Total 096 Salaries Paid to these Instructors	\$ 109,298	\$ 793,062	\$ 2,351,249	\$ 2,798,971	\$ 3,413,091	\$ 3,615,660	\$ 3,692,838
Total Salaries Paid to these Instructors	8,262,881	9,112,415	11,196,601	12,671,087	13,657,873	13,513,345	13,656,746
Total Instructors paid at least \$30,000	62	62	75	79	83	81	85
Total 096 Salaries Paid to these Instructors	\$ 109,298	\$ 729,395	\$ 2,227,792	\$ 2,637,666	\$ 3,285,740	\$ 3,432,842	\$ 3,524,493
Total Salaries Paid to these Instructors	7,796,308	8,621,893	10,719,161	12,192,093	13,057,191	13,099,873	13,394,926

NOTE: This analysis includes all instructors except those listed as Student Assistants or Graduate Assistants receiving 096 funds. Certain instructors included here were classified by us under other categories elsewhere in this report.

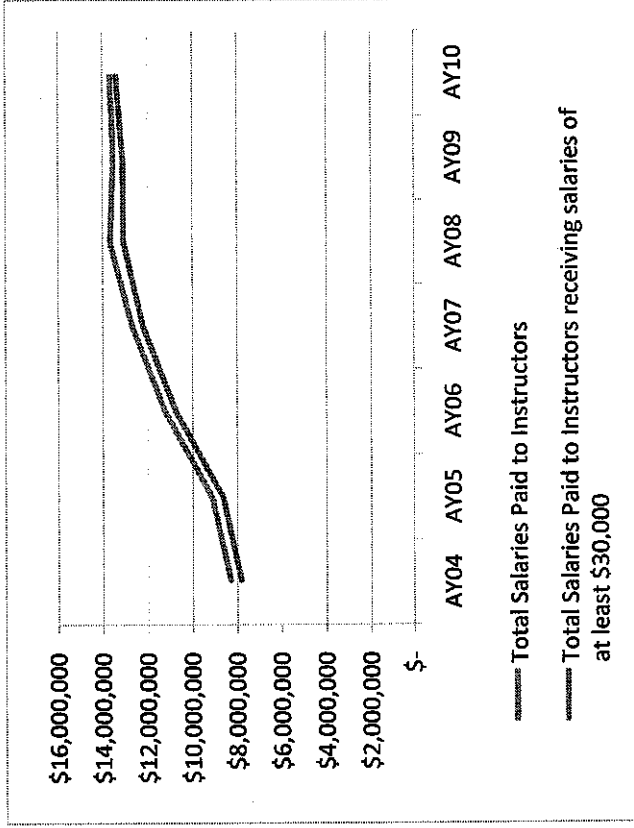
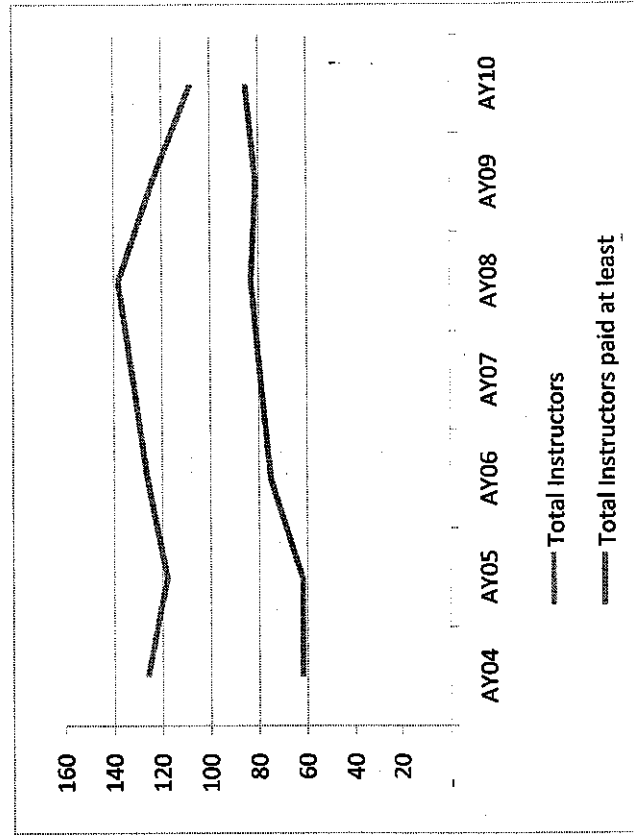


Exhibit C

School of Business

	FY2003	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009	FY2010
Recap of Course Fees:								
Carry Forward-Prior Year		4,682.47	8,189.61	62,503.28	648,785.04	(62,376.30)	622,809.80	647,755.10
Revenue *	120,111.96	112,805.00	2,090,072.99	4,674,043.68	4,866,950.23	5,921,062.33	6,405,382.17	7,150,359.19
Itemized Expenditures								
Payroll-Salary & Fringe								
New Tenure Faculty Positions	-	-	-	1,120,000.60	1,448,547.61	1,858,474.47	1,773,347.44	1,642,484.56
Cont. Tenure Faculty Positions	-	-	122,242.86	193,341.78	-	223,065.73	402,879.49	339,824.04
New Instructional Positions	109,754.26	109,297.86	338,370.59	544,139.65	758,936.24	767,403.89	905,243.35	1,085,095.08
Cont. Instructional Positions	-	-	283,068.81	455,381.12	507,726.93	449,216.70	437,118.71	561,596.37
New Admin. & Misc. Services	-	-	40,344.80	97,341.97	167,241.27	274,140.74	377,302.91	394,809.64
Cont. Admin. & Misc. Services	-	-	35,535.12	123,440.56	50,816.14	46,824.07	105,392.71	63,318.52
New Student Support Services	-	-	205,170.90	404,286.95	425,998.33	485,572.58	523,220.06	580,491.95
Cont. Student Support Services	5,675.23	-	27,371.69	196,790.29	145,977.71	123,455.11	119,027.06	125,768.36
New Staff Positions-Tech.	-	-	70,756.69	86,260.68	132,086.10	97,286.79	110,958.05	-
Cont. Staff Positions-Tech.	-	-	-	48,532.50	31,833.88	-	66,434.80	42,583.10
GTA Expense	-	-	-	-	-	-	59,928.74	166,388.33
GRA Expense	-	-	-	-	-	-	17,568.13	49,658.37
Student Hourly Expense	-	-	288,651.06	334,941.76	423,697.87	374,145.42	577,691.87	638,681.46
Total Payroll Expense	115,429.49	109,297.86	1,411,512.52	3,604,457.86	4,092,862.08	4,699,585.50	5,476,113.32	5,690,699.78
Other Operating Expenditures								
Faculty Support			65,990.94	68,001.92	33,336.14	52,168.69	82,957.97	115,858.98
Instructional Support Materials						28,488.46	54,247.26	48,407.54
Supp. Education Experiences			18,847.88	18,598.14	4,606.25	4,521.04	19,547.05	43,379.98
Italy Tuition				-	568,709.10	117,609.64		
Student Support Services			297,235.14	200,674.86	119,542.66	71,746.94	231,120.82	235,371.67
Scholarships & Financial Aid			18,965.80	154,978.76	285,517.34	156,111.64	177,007.29	290,451.51
Technology			118,442.96	45,150.06	235,583.73	63,702.00	164,921.00	105,506.00
Facilities			100,314.08	-	238,065.82	47,382.45	69,033.01	4,748.47
Miscellaneous								
Acad. & Org. Memberships **			4,450.00	-	-	-	9,850.00	9,850.00
FY09/10 DD & GHI Morator.							96,750.00	1,996.52
Total OOE			624,246.80	487,403.74	1,485,361.04	541,730.86	905,434.40	855,570.67
Prior Period Enorm. Adjust.				4,099.68	111.55	5,440.13	1,110.85	
Carry Forward-Next Year ***	4,682.47	8,189.61	62,503.28	648,785.04	(62,376.30)	622,809.80	647,755.10	1,251,843.84

* A portion of the Revenue comes from existing Masters fees that existed prior to implementation of school-wide course fees.

** FY05-07 Accounting system was not separated between Academic/Student Support for OOE purposes.

*** The carry forward amount each year should not be construed as a budget surplus. Carry forwards are common and represent responsible budgetary practice.

Exhibit D

Existing Faculty Receiving Salary Increases for Teaching Old Courses

Title	Base Year Pay		DT Funds Received		
	2004	2005	2006	2007	Increase
Lecturer	\$ 56,407	\$ 79,538			\$ 23,131
Lecturer	16,223	47,230			31,007
Lecturer	16,223		\$ 49,693		33,470
Lecturer	32,541		60,557		28,016
Lecturer	79,520			\$ 85,426	5,906
					<u><u>\$ 121,530</u></u>

Compensation Per Course

Title	General Fund		DT Funds Received		Average Increase Per Course	Increase Year Courses Taught	Total Salary Increase Paid With DT Funds
	2004	2005	2005	2006			
Lecturer	\$ 6,267	\$ 7,231			\$ 964	9	\$ 8,676
Lecturer	8,112	9,233			1,121	2	2,242
Lecturer		9,233	\$ 9,939		706	2	1,412
Lecturer	5,424		8,651		3,227	6	19,362
Lecturer							
							<u><u>\$ 31,692</u></u>

(No salary increased from DT funds on a per course basis)

Exhibit E

Faculty who received DT funds while teaching only PhD level courses

Payroll Date	Job Description *	DT Funds	Course			
			Level	Semester	Subj. #	Course Title
6/4/2005	Associate Professor	\$ 7,180.28	PhD	Summer 05	BUS 999	Doctoral Dissertation
6/4/2005	Associate Professor	293.32	PhD	Summer 05	BUS 999	Doctoral Dissertation
6/18/2005	Associate Professor	2,050.39	PhD	Summer 05	BUS 999	Doctoral Dissertation
6/18/2005	Associate Professor	83.81	PhD	Summer 05	BUS 999	Doctoral Dissertation
7/16/2005	Associate Professor	1,981.66	PhD	Summer 05	BUS 999	Doctoral Dissertation
6/18/2005	Associate Professor	5,187.17	PhD	Summer 05	BUS 999	Doctoral Dissertation
7/2/2005	Associate Professor	7,262.05	PhD	Summer 05	BUS 999	Doctoral Dissertation
7/30/2005	Professor	2,192.36	PhD	Summer 05	BUS 999	Doctoral Dissertation
8/13/2005	Professor	1,356.38	PhD	Summer 05	BUS 999	Doctoral Dissertation
7/30/2005	Professor	96.15	PhD	Summer 05	BUS 999	Doctoral Dissertation
8/13/2005	Professor	62.85	PhD	Summer 05	BUS 999	Doctoral Dissertation
		<u>\$ 27,746.42</u>				

*Based on list of faculty **not** receiving DT funds per the School of Business

Exhibit F

Other Operating Expenditures Inconsistent with the DT Proposal

Transaction ID	Transaction Date	Vendor	Transaction Description	Expense Amount
<u>New building marketing materials</u>				
938517	09/11/09	SUN GRAPHICS LLC	Insert- Brochure, new building	<u>\$ 1,828.80</u>
<u>Research related expenses for conferences and publication</u>				
647036	12/20/05	Foundation For Education & Research in	Prof/Sci Equip	\$ 1,430.00
873466	09/24/08	Faculty	registration	650.00
820630	03/05/08	Faculty	Travel: out-st:registration	150.00
899884	02/10/09	Faculty	Meals & Lodging	1,819.82
123573	06/26/09	AMERICAN ACCOUNTING ASSOCIATION	Registration Faculty AAA	350.00
140774	11/13/09	AMERICAN ACCOUNTING ASSOCIATION	Submission Fee - Faculty	200.00
572672	01/10/05	Faculty	Travel:out-st:meals & lodging	1,457.88
				<u>\$ 6,057.70</u>
<u>Administrative costs for AACSB accreditation and related fees</u>				
965169	06/04/10	AACSB-INTER ASSOC MANAGEMENT EDUCATION	accreditation fee	\$ 7,300.00
922504	05/21/09	AACSB-INTER ASSOC MANAGEMENT EDUCATION	Annual Accred. Fee	7,300.00
922504	05/21/09	AACSB-INTER ASSOC MANAGEMENT EDUCATION	Educ.Membership	2,550.00
965169	06/04/10	AACSB-INTER ASSOC MANAGEMENT EDUCATION	Educational membership	2,550.00
609174	06/16/05	AACSB-Inter Assoc Management Education	Fees: misc., other	2,700.00
609174	06/16/05	AACSB-Inter Assoc Management Education	Membership-in agency name only	1,750.00
				<u>\$ 24,150.00</u>

**University of Kansas School of Business
Response to BKD Review Report of Differential Tuition Expenditures
November 9, 2010**

On behalf of the University of Kansas School of Business, the following is our response to the BKD report regarding differential tuition (DT) charged by the School of Business. We appreciate the time and energy spent by the Steering Committee and BKD working on this review and in preparing the report.

The BKD report provides a complete accounting of all DT funds from implementation through June 30, 2010. We are pleased that the report confirms that DT funds have been expended in a manner consistent with the original proposal.

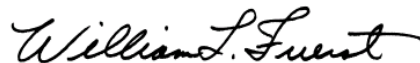
We will comment here on only a couple of the points in the report.

- BKD identified a few expenditures it believes should have been sourced with funds other than DT. These expenditures represent only “two tenths of 1% of the total DT fund expenditures.” These represent a very small amount over the six year period and we agree with BKD’s observation that “there could be differences of opinion about whether or not these expenditures conflict with the expenditure guidelines in the DT proposal.” However, we will review the identified expenditures with the Student Differential Tuition Advisory Committee, and if the committee believes these expenditures should have been sourced from other funds, we will address this issue.
- The report discusses the School’s accounting and budgeting practices and suggests several possible changes to these practices. The School will give these suggestions due consideration. The School believes its current accounting/budgeting systems and practices account for all DT revenue and expenditures in an accurate and useful manner. These systems also provide the financial information necessary to prepare financial statements for School management, DT reporting requirements and general information purposes.

The Student Differential Tuition Advisory Committee has been re-established and met on October 21, 2010. At the meeting, the committee agreed to meet again after the BKD report is released. The School looks forward to reviewing the report with the committee, getting input from the student members representing the School’s many different programs on how these funds can be used to further enhance benefits to business students, and working with the committee on an on-going basis as it serves the oversight and reporting function in the DT proposal. We agree fully with BKD’s observation that a vehicle for “addressing remaining student concerns would be for them to participate on the Student Differential Tuition Advisory Committee.”

The School has made great progress in implementing the original DT proposal. Working together with our students, faculty, alumni and staff, we will build on that progress as we continue to advance the School.

We have been confident and proud that the School of Business used the funds entrusted to us to significantly enhance the educational opportunities of our students. We believe BKD's rigorous analysis and thorough reporting will provide students, parents, alumni and other constituents with the assurance that the School has been a good steward of these funds.



William L. Fuerst
Dean, University of Kansas School of Business