Analysis and Design of Internal Control on Revenue Cycle in Order to Optimize Enrollment Fees Collection in Non-Profit Organization: Case Study on ABC Foundation

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Abstract: Information technology utilization could promote more efficient business process. However, if it is not supported by adequate internal control activities, management will lose control its operational activities. Fraud, loss of trust from stakeholders, and reputation declining are risks that must be borne due to the lack of internal control. By using a qualitative approach with a case study approach at ABC Foundation, a non-profit organization in education industry, this study aims to analyse and design the internal control activities in its new student admission business process. The research was conducted by observation, series of interviews with its management, and analysis on the internal documents. The results show that there are some weaknesses on procedures in optimizing its billing process which due to lack of procedures' adjustment to current business processes and unstructured implementation of internal control activities. It impacts the balances of accounts receivable and the value of the recorded income being inaccurate and the number of complaints from the parents of students due to inappropriate billing amount. Therefore, this study provides recommendations for improvements in company's financial administration procedures and internal control activities that can be applied to solve existing problems while improve company's performance and reputation.

1 INTRODUCTION

This research is aim to analyse the internal control on non-profit organisation engaged in educational services in Indonesia. Even though there are no regulations required the non-profit entity in Indonesia should have an internal control system, Jeffrey (2008) writes that a strong internal control system creates a separate competitive advantage for an entity regardless of whether the entity is profit-oriented or non-profit. An entity that has strong internal control will be able to respond to encountered risks faster and better (Jeffrey, 2008). Strong internal control system will also maximize the value delivered to customers, since it is part of entity's value chain. It also can be view as part of management's strategic plan to achieve company's target performance (Mawanda, 2008).

Porter (1985) explained that competitive advantage grows out of value a firm is able to create for its buyers that exceeds the firm's cost of creating it. Value, as explained by Porter (1985), is what buyers are willing to pay. Value also described as price-quality ratio of a product (Lindič and Silva, 2011). In the education industry, the value offered by education providers will affect parents in deciding where their children will be enrolled in.

Consumer loyalty towards a product will increase when the value received by consumers are deemed to be greater than the cost incurred. This becomes important as part of a company's marketing strategy, especially in the education industry that relies on its marketing strategy through word of mouth. Jiewanto, Laurens, and Nelloh (2012) in his research explains that the excellent quality of service from an educational institution will have a positive impact on the consumer's satisfaction and image of the educational institution, and it will also increase the intention of its customers to disseminate information or provide good testimonies based on their experience.

In Indonesia, Law Number 20 of 2003 on National Education System, Article 53 stipulates that

the provider and /or formal education units shall be non-profit educational legal entities. Although non-profit principled, it does not mean that a non-profit entity can override the internal controls in its operations. The internal control is posited to be used to address agency cost by mean ensuring information efficiency between principal and agent (Namazi, 2013).

The Committee of Sponsoring Organizations of the Treadway Commission (COSO) (2013) defines internal control as a process influenced by the entity's board of directors, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the categories of effectiveness and efficiency of operations, reliability of reporting, and compliance with applicable law and regulations.

The Association of Certified Fraud Examiners (ACFE) (2016) in its publication explains that lack of internal control is one of the biggest factors causing fraud within an organization. Furthermore, ACFE (2016) in the research also found that fraud occurred in organizations operating in the education industry is largely associated with assets misappropriation. A total of 25% of frauds are related to skimming in which incoming payment is stolen from an organization before it is recorded on the organization's books and records.

Based on research conducted on 27,495 public charities from 1999 to 2007, some of the causes of internal control issues in public charities are poor financial conditions, growing organizations, and complex or small organizations (Petrovits, Shakespeare and Shih, 2011). This research also concluded that the disclosure of a problem in internal control negatively affects the support from the next donors. Synder, Andersen, and Zuber (2017) in their paper stated that based on research conducted by the Association of Certified Fraud Examiners (ACFE) in 2014, an estimate losses suffered by non-profit entities due to fraud has reached 5% of their annual income or about US $108,000. The magnitude of these losses does not take into account the impact of reputation damage and the loss of public trust towards the entity's performance, which will undermine income in the short term.

Burtseva, Vokina and Schneider (2015) explained that the continuity of an educational institution business depends on its ability to identify risks. Implementation of this task required the involvement of employees who work in internal control functions within the organization.

Yayasan ABC (the Foundation) is an entity that operates as a provider of educational services. Currently, there are 1,300 registered students in 6 school branches under the management that located in Jakarta, Tangerang Selatan and Surabaya. In the near future, the management also plans to open 2 (two) new school branches outside of Jakarta. With this expansion plan, the management targets an increase in the number of students to more than 50%.

Since 2014, the Foundation implements a web-based application as a tool for new student admission. Then, in order to improve the company's internal control and to support the Foundation's expansion plan, by mid-2017, the board decided to centralize most of the school's supporting activities.

With changes to the organizational structure and the way of work, there is the risk that Foundation's financial statements could not provide the reliable information to decision makers. Errors of numbers presented can occur due to intentional or accidental elements. Based on the results of interviews between the researcher and the Finance Division team, the Foundation's accounting team is facing several problems that arise in the Foundation's revenue cycle, especially in admission process, such as:

1. Discrepancies are found between the balance of accounts receivable in the financial statements with the list of students who still have outstanding balance;
2. Total income from new students enrolled recorded in the income statement for the period ended in 31 December 2016 has a significant fluctuation compare to prior period, which was difficult to explain.
3. Prospective parents are complaining because the registration fees they have been charged with are inconsistent to the information provided beforehand.

The problem raised may be indicated there are some weaknesses on company's accounting information system, especially related to its internal control system. This research will analyze current condition of internal control system on ABC Foundation revenue cycle, especially related to its new student's admission process. This study does not just extend the current finding of the effect of internal control system to company's financial performance and its going concern, but also propose a recommendation to improve company's financial administrative procedures and internal control activities that can be applied to solve existing

problems. The value delivered to its consumer and company's reputation also expected to be improved.

2 LITERATUR REVIEW

2.1 Agency Theory

Agency theory postulates that as a contract under which principal (founders) engage agents (managers) to perform services on their behalf (Jensen and Meckling, 1976). This theory, assumes that agents have more information than principals which lead to asymmetric information and adversely affect the principals' ability to monitor whether their interest are being properly served by agents (Adams, 1994). It also premiss that principals and agents act rationally to use the nexus of contract to maximise their own wealth. By adapting the agency theory, the principals can design and implementing effective control mechanism. One of this role is to ensure informational efficiency by using accounting information in establishing control system (Namazi, 2013). It also provides a delegate model to explain why control is important, thus it should be exerted in entity (Namazi, 2013).

2.2 Porter's Theory

Competitive advantage grows out of value a firm is able to create for its buyers that exceeds the firm's cost of creating it (Porter, 1985). There are 3 (three) generic strategies to company gain the advantage, i.e. company offer unique value to its consumers, company sets out to become lower cost producer, and company decide to serve segmented market.

The strategy chosen then is reflected in the series of activities in delivering the value to the consumers, namely value chain (Porter, 2015). Value is explained as what buyers are willing to pay (Porter, 2015). One of activities in value chain is related to firm infrastructure which accounting information system is under its activities. Internal control is one of accounting information system component (Romney, 2015). Therefore, better internal control in organization could promote better company's value chain and increase value delivered to its customers.

2.3 Internal Control

The Committee of Sponsoring Organizations of the Treadway Commission (COSO) (2013) defines internal control as a process, effected by an entity's board of directors, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the categories of effectiveness and efficiency of operations, reliability of reporting, and compliance with applicable law and regulations. Romney (2015) defines it as the process implemented to provide reasonable assurance that the following control objectives are achieved, in such as safeguard assets, provide accurate and reliable information, and prepare financial reports in accordance with established criteria. Therefore, it can be concluded that internal control is a process that is interrelated, designed and effected by the entity's management in order to achieve operational effectiveness, financial reporting reliability, and compliance with regulations and applicable law.

There are five component on COSO Framework component, i.e. control environment as the foundation, risk assessment as a dynamic and iterative process, control activities as the series of actions established by policies and procedures, information and communication, and monitoring activities as ongoing and separate evaluations process (COSO, 2013).

Internal control has become a requirements to organizations to achieve either its business objectives or financial performance, including in education institution (Mawanda, 2008). Any internal control weaknesses, especially on control environment component, accounting policies and procedures, or control design, will have negative impact on company's performance (Lai, Li, Lin, Wu, 2017). It will also lead to unreliable financial data that may impact to accuracy of financial forecast (Clinton, Pinello, and Skaife, 2014). Therefore, it is imperatives for organizations, either profit or non-profit oriented, to assess, design, develop and monitor its control system. It will turn allows the organizations to operate effectively (Maguire, 2014).

Romney (2015), in his book, stated that revenue cycle is exposed some of the risks, i.e. inaccurate order, invalid order, uncollectible accounts, loss of customers, shipping errors, failure to bill, billing errors, posting errors in accounts receivable, theft of cash and cash flow problems. Those risks can be mitigated by implemented control activities, such as restriction access to master data, segregation of duties, aging A/R preparation, reconciliation between sales order, bill-of-lading, and invoice, proper authorization, and system configuration. Romney (2015) also explained that those internal controls activities perform preventive, detective, or corrective functions.

3 RESEARCH METHODOLOGY

3.1 Research Methods

This research is a descriptive qualitative research which is used to gaining a deep understanding to make a conclusion of the pattern or phenomenon that occurs (Wahyuni, 2015). The data obtained and processed are not numerical, but instead flowcharts and interview results, as well as observations (Wahyuni, 2015). In this study, the phenomenon to be analysed is the design of ABC Foundation internal control system.

This research using case study approach on 1 (one) research object. The object of this research is ABC Foundation, an entity engages as education service providers. The foundation was selected as the place to conduct the research because, in general, there is limited access to financial information of a non-profit entity.

Considering the main purpose of conducting this research this research utilized primary data sources that are directly obtained from the Finance division and Sales division of the Foundation. Data collection techniques used in this research is observation of usage of web-based application system, interviews with finance and sales division, and with the finance director as the management's representative, as well as analysing the company's internal documents.

The observation will conducted on one branch of the school owned by the Foundation. This consideration was taken because the particular school branch has the most number of students compared to other school branches. Income recorded by the school branch by 31 December 2016 reached 88% of the total income recorded by ABC Foundation. Of the total income accounted for by the school's branches, 19% of them came from the enrolment of new students. In addition, another consideration is that, since it was decided to centralize in July 2017, business processes uniformity between branches of the school. Hence, the results of this research will be utilized and implemented in other branches or could be a blueprint to be used by the management when they are opening another branch.

3.2   Data Analysis

This research will use the data obtained to analyse ABC Foundation control environment, risk assessment process and internal control practices in new student's admission process at ABC Foundation. The analysis will produce information

on the conformity of internal control practices in the field with the existing procedures. This research will also develop a framework to adjust internal control activities therein. The results of interviews, observations, and analysis of the company's internal documents will generate an overview of operational activities in the field as well as system development plans that will form the basis for the preparation of the internal controls adjustment framework.

3.3 Scope of Research

In order to make this research focused, the scope of this study will be limited to analysis until designation of internal control activities on revenue cycle which is related to new student's admission activities.

4 RESEARCH OUTCOME

4.1 Control Environment

Company's code of conduct has been communicated regularly to all employees. In its notarial deed also stated duties and responsibilities of Foundation's organ, i.e. founder, controller, and management. Foundation's financial statements regularly reviewed and presented to controller and founder as part of management's accountability. Its organisation structure has been developed to represent each function and line of command. Each employee also has key performance indicator which related to admission and students retention ratio. Company also give appreciation to employee who has more than 10 service years.

Even though company has communicated its code of conduct regularly, ABC Foundation has no internal audit division or whistle blowing system as a tool to mitigate fraud risk. Management rely on supervisor review for any code of conduct violation.

4.2 Risk Assessment

In general, based on interview with Finance Director, ABC Foundation has neither risk assessment tool nor risk control matrix. She stated that new student's admission process is exposed low risk of skimming, since all the cash receipt transactions was done directly through company's bank account. ABC Foundation is also exposed low environment significant changes risk, since better government support and people awareness on education.

4.3 Control Activities

In the company's web-based application system, the prospective parents will register independently if they want their children enrolled in ABC School. There are 3 (three) division involved in the admission process, i.e. sales, finance, and academic division.

During the research, researcher identify that there are some threat on the admission process. Furthermore, researcher paired it to internal control activities to mitigate the risk. The activities will classified by its functions, i.e. preventive, detective, or corrective actions. And at the end, based on observation and interviewing process, researcher assess whether the finance and sales team do the activities.

Table 1: Risk and Internal Control Activities on Admission Process.

Process	Risk	Internal Control Activities	P/D/C*)	Checklist
Registration	Invalid order	Registration can only process through admission system, including if the parents is Foundation's employee.	P	√
		Sales team verify validity of registration data.	P	√
		Access limitation to student information in academic system.	P	√
	Loss of customer	Record and resolve complaints from customers in a timely manner	C	√
		Follow up unpaid invoice exceed the due date.	P	√
		Cancel registration process if the parent does not response our follow-up actions properly or settle the enrolment bill before maturity date.	P	√
Billing	Billing error	System configuration to automatically identify discount criteria, based on employee ID, or e-mail address, or student ID.	P	×
		System configuration to automatically enter pricing data	P	×
		Do proper socialization to sales and finance team related to enrolment fee, early bird price, and instalment mechanism before admission period started.	P	√
		Access limitation to pricing data, only can be accessed by Finance Manager.	P	√
		Access limitation to employee data, only can be accessed by HRD Manager.	P	√
		Proper authorization and documentation up to GM Marketing and Sales level to approve special enrolment fee discount.	P	×
	Failure to bill	Registration can only process through admission system, including if the parents is Foundation's employee.	P	√
		Reconcile number of new students enrolled per academic year between finance division and sales division periodically.	D	×
		Instalment application should be documented properly, in written documentation, between parents and school (approved by Finance Director).	P	√
		Prepare manual register of the name of parents, name of students, and the enrolment fee instalment value.	P	√
		Develop integrated system to issued enrolment fee instalment invoice automatically.	P	×
		Reconcile of enrolment fee instalment invoice issued to manual register of outstanding enrolment fee instalment, periodically.	D	×
	Uncollectible account from the enrolment	Prepare aging account receivable.	D	×
		Reconcile of enrolment fee instalment invoice issued to manual register of outstanding enrolment fee instalment,	D	×

Process	Risk	Internal Control Activities	P/D/C[*]	Checklist
	fee instalment.	periodically.		
		Follow up receivables aged more than 30 days.	P	√
		Close access to admission system if the student or sibling still has unpaid invoice.	P	√
Cash receipt	Theft of cash	Cashier prohibited to receive payment in cash.	P	√
		Socialization and persuade parents to utilize payment channel via virtual account or, if any, payment gateway.	P	√
		Segregation of duties between cashier and the person who do accounting record.	P	√
		Daily reconcile between EDC machine transactions listing to bank statement.	D	√
		Do bank reconciliation periodically and in timely manner.	D	√
		Investigate long outstanding account receivables.	D	×
		Pre-numbered payment receipt form.	P	√
		Develop payment receipt system that can't be edited or cancelled by the cashier without the supervisor's authorization.	P	√
	Cash flow problem	In cooperation with banks to provide credit card instalment facility.	P	√
		Prepare cash flow budget	P	×
Providing service	Provide services to students who have unpaid enrolment fee bill.	Close access to admission system if the student or sibling still has unpaid invoice.	P	√
		Ensure payment of the enrolment fee instalment completed before the beginning of school year.	P	√
		In case of the enrolment fee instalment schedule exceeding the stipulated period, proper authorization and documentation from Finance Director and/ or HRD Director (if the parent is Foundation's employee) is needed.	P	√
		Reconcile payment of the enrolment fee instalment to invoice amount and manual register of outstanding enrolment fee instalment, periodically.	D	√
Accounting record	Revenue recorded and balance of account receivable at the end of period is inaccurate.	Ensure to record the invoice issued to accounting information system through Account Receivable menu.	P	√
		If invoice recorded to accounting information system in batch, do batch total check and compared to computer generated total, to ensure no data missing out.	P	√
		Reconcile accounts receivable sub-ledger to general ledger at the end of month.	D	×
		Reconcile total invoice amount issued to revenue recorded at general ledger at the end of month.	D	×
		Do bank reconciliation in timely manner and periodically.	D	√
		Daily reconcile between EDC machine transactions listing to bank statement.	D	√
		Accounting manager perform analytical review of revenue amount recorded periodically.	D	√
		Send monthly statement to parents.	D	×
		Investigate long outstanding account receivables.	D	×

*) P = Preventive, D = Detective, C = Corrective.

4.4 Discussion

Based on the results of observations and interviews conducted, this research concluded that there are some weaknesses in internal control activities in the process of admission of new students in the ABC Foundation. The weaknesses are compared to related control objectives. The weaknesses are shown in the table below.

Table 2: Proposed Addition of Internal Control Activities of Admission Process.

No	Internal Control Activities	Risk	Control Objectives
1	Prepare aging account receivable.	Uncollectible account from the enrolment fee instalment.	As management's tool to monitor outstanding receivables.
2	Reconcile of enrolment fee instalment invoice issued to manual register of outstanding enrolment fee instalment, periodically.	Failure to bill; Uncollectible account from the enrolment fee instalment.	To detect unbilled enrolment fee instalment in timely manner.
3	System configuration to automatically identify discount criteria, based on employee ID, or e-mail address, or student ID.	Billing errors.	To avoid error during identification process.
4	System configuration to automatically enter pricing data	Billing errors.	To avoid error or fraud in enter pricing data.
5	Proper authorization and documentation up to GM Marketing and Sales level to approve special enrolment fee discount.	Billing errors.	To prevent total discount amount is larger than budgeted amount.
6	Reconcile number of new students enrolled per academic year between finance division and sales division periodically.	Failure to bill.	To ensure all students enrolled have settle all enrolment fee bill.
7	Develop integrated system to issued enrolment fee instalment invoice automatically.	Failure to bill.	To ensure completeness of enrolment fee instalment invoice issuance
8	Investigate long outstanding account receivables.	Theft of cash; Revenue recorded and balance of account receivable at the end of period is inaccurate.	To detect skimming practice.
9	Prepare cash flow budget	Cash flow problems	To ensure company cash flow stability
10	Reconcile accounts receivable sub-ledger to general ledger at the end of month.	Revenue recorded and balance of account receivable at the end of period is inaccurate.	To ensure accuracy and completeness of account receivable balance at the end of period.
11	Reconcile total invoice amount issued to revenue recorded at general ledger at the end of month.	Revenue recorded and balance of account receivable at the end of period is inaccurate.	To ensure accuracy and validity of revenue recorded during the period.
12	Send monthly statement to parents.	Revenue recorded and balance of account receivable at the end of period is inaccurate.	To ensure accuracy, completeness and existence of account receivable balance at the end of period.

Based on the above proposed table, researcher conclude that the problems occurred in Foundation admission process was due to lack of control activities during billing process. Thus the control objectives did not met. Finance team never do reconciliation number of new students enrolled per academic year between finance division and sales division. The reconciliation also not done between

total invoice amounts issued to revenue recorded at general ledger at the end of month. They also never reconcile accounts receivable sub-ledger to general ledger at the end of month. There are also some lack of control on instalment of enrolment fee billing and its payment. As a result, management can't state that the account receivables balance and revenue recorded at the end of year is complete, exist, accurate, and valid.

In addition, since the verification procedures to identify whether the potential new students are entitled to a discount was done manually by sales team, there are some failure risk to identify the entitled students. Therefore, some of prospective parents complain about the billing amount.

Based on the table 2, this research then re-describes the second enrolment fee billing process that occurs in the new students admission step with the addition of internal control activity proposal in it.
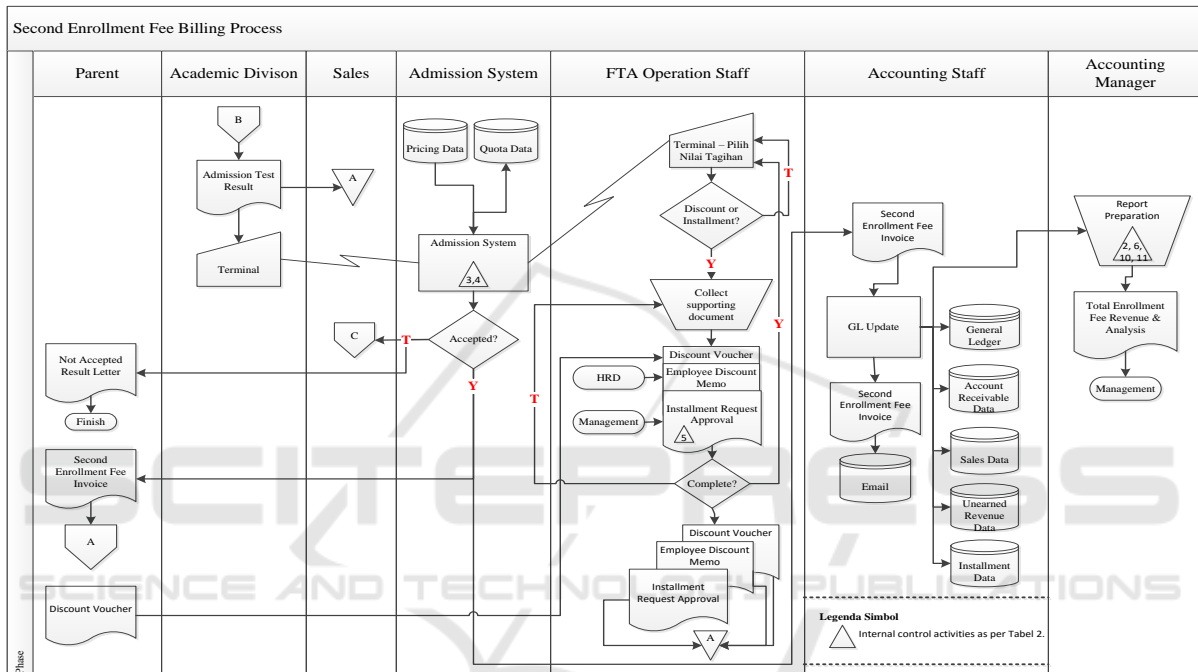

Figure 1: Second Enrolment Fee Billing Process

5 CONCLUSIONS

This research was conducted to evaluate the internal control activities in the revenue cycle in order to optimize enrolment fees collection within ABC Foundation. Based on the outcome of the research, it was found that the problems experienced by ABC Foundation's financial division were caused by the lack of a reconciliation process between the number of students enrolled and the invoice value billed to parents according to the finance division and the sales division. In addition, the reconciliation process between the value of revenues and account receivables recorded in the ledger with the related sub-ledger has not been done consistently and structurally. The lack of control activities has resulted in the management losing control of the

value of income recorded in the financial statements. In addition, the above mentioned causes a number of complaints from the parents due to frequent errors in issuing the bill.

5.1 Research Limitations

This research only covers revenues sourced from the enrolment of new students. In the future, other researchers may conduct research on other sources of income that are not included within the scope of this research.

5.2 Recommendations

Based on the conducted research, here are suggestions for improvements that can be implemented by the company and the next research:

1. For ABC Foundation, based on the deficiency in the process of enrolment of new students, it is necessary to improve the administrative procedures of school finance along with the addition of internal control activities in the form of data reconciliation between related divisions in the revenue cycle. Formal improvement of this procedure is expected to facilitate the management in enforcing existing regulations consistently and structurally. In addition, given the growing number of transactions and the company's plans to continue to expand, it is better if the Foundation perform a cost-benefit analysis to build an integrated registration and billing system that facilitates payment through instalments. This is necessary to improve the efficiency of the company's operational activities and improve services for its customers.

2. For the next researchers, it is advisable to evaluate on other business processes within the revenue cycle of ABC Foundation, such as the collection process of school fees or club fees.

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