



Office of Missouri State Auditor
Nicole Galloway, CPA

University of Missouri
System Administration



Findings in the audit of University of Missouri System Administration

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| Background | The State Auditor's Office has conducted a review of the University of Missouri System, covering the Board of Curators and System Administration. This audit did not include operations of the individual campuses or the University of Missouri Health System. Our methodology included reviewing minutes of meetings, written policies and procedures, financial records, and other pertinent documents pertaining to procurement procedures, information technology, construction procedures, administrative expenditures, and human resources, among other areas; interviewing various personnel of the university system; and testing selected transactions. |
| Incentive Payments | In 2015, 2016 and 2017, the Board of Curators or System President approved approximately \$1.2 million in incentive payments to top executives and administrators for their performance during the preceding years. Incentive payments were made without a formalized and clearly defined process of how the additional compensation was to be earned, giving the appearance of year-end bonuses, which are a violation of the Missouri Constitution. The majority of these payments, as well as approximately \$60,000 in retention bonuses, were paid to administrators without formal Board of Curators' approval of the individual amounts. Also, this additional compensation is not included in the individuals' published salaries, thereby reducing compensation transparency to the public. |
| Chancellor Transition | In November of 2015, R. Bowen Loftin resigned as Chancellor of the Columbia campus. He continued to receive his chancellor salary over the following 6 months, though he had no job title and no official responsibilities. Upon Loftin's resignation, then UM System President Tim Wolfe approved the creation of a new position, Director of National Security Research Development. In June 2016, interim president Hank Foley approved a new contract for Loftin in this position, retroactive to the previous month, at 75 percent of Loftin's chancellor salary, significantly higher than other research administrators. Under the terms of the contract, Loftin was allowed to keep additional compensation not required by his original contract, and was also granted "developmental leave" to spend the remainder of the year traveling with no clear objectives or deliverables required during this time, all while receiving both his salary, an additional \$50,000 travel budget, a \$15,560 vehicle allowance, and \$35,000 annual stipend. The duties of the new position of Director of National Security Research Development are not supported by the strategic plans of the UM System or the Columbia campus. |
| Vehicle Allowances | Vehicle allowances paid to UM System executives appear excessive and result in a lack of transparency in executive compensation. A total of approximately \$407,000 in vehicle allowance payments were made to an average of 15 top executive and administrative positions during the 2015 and 2016 fiscal years. |

Treasurer's Salary

The Board of Curators approved the hiring and established the initial salary of the Treasurer/CIO, but have not approved subsequent merit increases, incentive payments, and retention agreements. State law requires the Treasurer's "compensation to be fixed by the board."

In the areas audited, the overall performance of this entity was **Fair**.*

*The rating(s) cover only audited areas and do not reflect an opinion on the overall operation of the entity. Within that context, the rating scale indicates the following:

- Excellent:** The audit results indicate this entity is very well managed. The report contains no findings. In addition, if applicable, prior recommendations have been implemented.
- Good:** The audit results indicate this entity is well managed. The report contains few findings, and the entity has indicated most or all recommendations have already been, or will be, implemented. In addition, if applicable, many of the prior recommendations have been implemented.
- Fair:** The audit results indicate this entity needs to improve operations in several areas. The report contains several findings, or one or more findings that require management's immediate attention, and/or the entity has indicated several recommendations will not be implemented. In addition, if applicable, several prior recommendations have not been implemented.
- Poor:** The audit results indicate this entity needs to significantly improve operations. The report contains numerous findings that require management's immediate attention, and/or the entity has indicated most recommendations will not be implemented. In addition, if applicable, most prior recommendations have not been implemented.

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University of Missouri - System Administration

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NICOLE GALLOWAY, CPA

Missouri State Auditor

Honorable Eric Greitens, Governor
and
Board of Curators of the University of Missouri
and
Dr. Mun Y. Choi, President
University of Missouri - System Administration
Columbia, Missouri

We have audited certain operations of the University of Missouri (UM) System Administration, in fulfillment of our duties under Chapter 29, RSMo. Our audit did not include operations of the individual campuses or the University of Missouri Health System. The UM System engaged BKD, Certified Public Accountants (CPAs), to audit the university system's financial statements for the years ended June 30, 2015, and 2016. We reviewed the reports of the CPA firm and performed other procedures that we considered necessary in the circumstances. The scope of our audit included, but was not necessarily limited to, the years ended June 30, 2015 and 2016. The objectives of our audit were to:

1. Evaluate the UM System's internal controls over significant management and financial functions.
2. Evaluate the UM System's compliance with certain legal provisions.
3. Evaluate the economy and efficiency of certain management practices and operations.

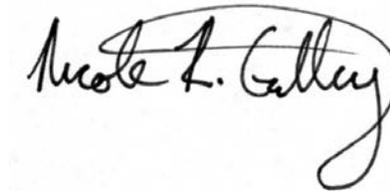
Our methodology included reviewing minutes of meetings, written policies and procedures, financial records, and other pertinent documents pertaining to procurement procedures, information technology, construction procedures, administrative expenditures, and human resources, among other areas; interviewing various personnel of the university system; and testing selected transactions. We obtained an understanding of internal controls that are significant within the context of the audit objectives and assessed whether such controls have been properly designed and placed in operation. We also obtained an understanding of legal provisions that are significant within the context of the audit objectives, and we assessed the risk that illegal acts, including fraud, and violations of applicable contract, grant agreement, or other legal provisions could occur. Based on that risk assessment, we designed and performed procedures to provide reasonable assurance of detecting instances of noncompliance significant to those provisions.

We conducted our audit in accordance with the standards applicable to performance audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform our audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides such a basis.

The accompanying Organization and Statistical Information is presented for informational purposes. This information was obtained from System management and was not subjected to the procedures applied in our audit of the university system administration.

For the areas audited, we identified (1) no significant deficiencies in internal controls, (2) noncompliance with legal provisions, and (3) the need for improvement in management practices and procedures.

The accompanying Management Advisory Report presents our findings arising from our audit of the administration of the UM System.

A handwritten signature in black ink that reads "Nicole R. Galloway". The signature is written in a cursive style with a large, looping "y" at the end.

Nicole R. Galloway, CPA
State Auditor

The following auditors participated in the preparation of this report:

| | |
|---------------------|------------------------------|
| Director of Audits: | Douglas J. Porting, CPA, CFE |
| Audit Manager: | Robert Showers, CPA, CGAP |
| In-Charge Auditor: | Tessa Rusatsi, CPA |
| Audit Staff: | Erin Dierksen |
| | Dacia Rush, M.Acct. |

University of Missouri System Administration

Management Advisory Report

State Auditor's Findings

1. Executive Compensation

We noted concerns with the University of Missouri (UM) System's incentive pay program for executives and administrators, including transparency concerns related to additional compensation provided to executives and administrators, as well as concerns with the contract awarded to a former Chancellor subsequent to his resignation. In addition, vehicle allowances paid to System executives appear excessive and the Board of Curators does not set the compensation of the UM System Treasurer as required by law.

1.1 Incentive Payments

The Board of Curators or System President approved \$819,000 in incentive payments to top executives and administrators, including the chancellors of the 4 system campuses, for their performance during the years ended June 30, 2014, and 2015. An additional \$359,000 in incentives were paid in fiscal year 2017 for performance during the year ended June 30, 2016. The incentive payments were made in accordance with Board of Curators-approved Collected Rules and Regulations (CRR) 20.130, which allows the President to develop a pay system to facilitate recruitment, retention and meaningful performance assessment of executive staff. The President has used this rule to implement the current incentive program.

Incentive payments were made without a formalized and clearly defined process of how the additional compensation was to be earned, giving the appearance of year-end bonuses, which may violate the Missouri Constitution. The majority of these incentive payments, as well as approximately \$60,000 in retention bonuses, were paid to administrators without formal Board of Curators' approval of the individual amounts. Also, this additional compensation is not included in the individuals' published salaries, thereby reducing compensation transparency to the public. See Appendix B for a detailed listing of incentive payments paid during fiscal years 2015, 2016, and 2017.

Incentive payment process not formalized

The process to award incentive payments to the UM System's top executives has not been formalized and documented to clearly define the parameters of the program, including which executives are participating in the program, what level of performance is required to earn the payments, and how performance goals are defined and measured.

Based on our review of the documentation to evaluate executive performance for the purposes of awarding incentive payments, the current informal process does not use clearly defined, objective performance goals or measures to determine if the additional compensation has been earned. The current process relies largely on strategic planning measures and strategies, which are more broad in nature, and in most cases are based on subjective information to determine if the outcome has been achieved. For example, the evaluations for the four campus chancellors included "goals" such as; "define and implement best and consistent practices for campus and system leaders;" and "improve efficiency and effectiveness of support



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functions across the system." Neither of these "goals" have a defined data set to measure success or failure, or a predefined objective goal of how much improvement is considered necessary to meet the goal.

System personnel indicated the incentive payments are based on a percentage of the individual's salary, with a maximum of 10 percent. However, there are no objective criteria to define what percentage an individual should receive for achieving certain levels of performance. In addition, many of the goals appear to be standard job duties for the individuals being evaluated. For example, the Chief Financial Officer's evaluation contained a "goal" to implement and support the effective use of a new budget system.

System personnel indicated incentive payments are available for the System President, Board Secretary, General Counsel, Vice Presidents, and Chancellors, as well as individuals reporting directly to the Vice Presidents. Each Vice President has the discretion to include any of the associate vice presidents reporting to him/her in the incentive program with the approval of the President. While the majority of the individuals participating in the incentive program are notified of their participation in the program through an offer letter or employment contract, no documentation was provided for two associate vice president-level employees to show they were clearly notified prior to the beginning of the year they were participating in the program. We observed documentation of a Vice President requesting, and receiving, the President's approval for an associate vice president to receive an incentive, however no documentation was available to indicate the associate vice president received notification of this approval.

Evaluations for the President, as well as several other executives reporting directly to the Board of Curators, are conducted annually by the board in closed session. The President has annual meetings with each executive who reports directly to him to evaluate his/her performance and determine if an incentive payment will be paid. Each Vice President annually evaluates the performance of individuals who report directly to him/her as it relates to incentive payments. We reviewed most of the evaluation documents used to determine whether goals were met and incentive payments were earned for the payments made during fiscal year 2016. The evaluations reviewed did not indicate the percentage or amount of incentive earned. Other than a listing of the incentive amounts actually paid, system personnel provided little or no documentation of how or when the specific amounts were determined. In addition, according to discussions with UM System personnel, all employees eligible for incentive payments received them. While a few individuals received incentive payments of 7.5 to 8.5 percent, most received payments of 9 percent or higher of their salary. This gives the appearance the incentive payments are primarily a means to provide additional compensation rather than an incentive for high performance.



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The incentive program, in its current form, appears to violate the Missouri Constitution. While the use of an incentive program may be allowable if implemented and executed appropriately, the absence of consistent documentation about performance goals to be met and the lack of defined objective criteria to determine the achievement of incentives gives the appearance the payments represent additional compensation for past performance. In addition, including employees in the program without always formally notifying them and documenting their inclusion creates an appearance the incentive payment represents additional compensation for past performance. As such, the incentive program would be in violation of Article III, Section 39, Missouri Constitution, and Attorney General's Opinion No. 72- 1955 (June 14, 1955), which states, ". . . a government agency deriving its power and authority from the constitution and laws of the state would be prohibited from granting extra compensation in the form of bonuses to public officers after the service has been rendered."

Without a formalized process being documented, the individuals participating in the program, as well as the individuals evaluating performance, cannot have a clear understanding of what level of performance is necessary to earn the incentive payments. Establishing clear and defined goals to be achieved in order to earn incentive payments, including what data sources will be used to measure progress toward goals, provides clarity to the employee and management, as well as to the public. Ensuring the goals to be achieved represent performance that warrants incentive payments, and not just performance of standard job duties, can reduce the perception these payments are merely additional compensation, and would make the executive incentive program more likely to be allowable under the Missouri Constitution.

No Board of Curators
approval

The Board of Curators does not directly approve incentive payments made to any executives or administrators reporting to the President or Vice Presidents, but instead approves the funding for the incentive program as part of a larger payroll line item in the annual budget, and receives an annual presentation by the President about the general cost of the program. There is no documentation that the Board of Curators is presented the details of individual incentive payments made.

In addition to incentive payments described above, the UM System paid approximately \$60,000 in retention payments to two executives during the 2 years ended June 30, 2016 that were not approved by the Board of Curators. See Appendix B for detail of these payments. They were made at the discretion of the President, and were accompanied by agreements with individual employees to ensure the employee stays with the university system for a specified period. If the employee leaves the university system prior to that specified date, the agreed retention payments are not released to the employee. The UM System could provide no documentation regarding the necessity of these payments.



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The Board of Curators approved CRR 20.130 in 2008 allowing the President to develop a pay system to facilitate recruitment, retention and meaningful performance assessment of executive staff. While delegating the performance assessment of executives to the President is reasonable, additional oversight appears necessary when awarding such a significant amount of additional compensation. Proper oversight of payments of this nature is in the best interest of the UM System and the public.

Transparency

Incentive program payments and other non-salary compensation are not included in the published and publicly available compensation information for the individuals receiving the payments. As a result, compensation levels of the UM System's top executives and administrators are understated in public records and the transparency of system personnel costs is reduced.

In addition to the incentive payments, the UM System provides additional compensation in the form of contractual relocation payments, contractual retention or longevity payments, housing allowances, and vehicle allowances. In total, the UM System provided more than \$2 million in non-salary executive and administrative compensation during the 2 years ended June 30, 2016. While all compensation is appropriately included in the taxable income reported to the Internal Revenue Service, none of the additional \$2 million in non-salary compensation is included in the publicly available compensation information of the individuals receiving the payments. See Appendix C for information on other compensation payments, and MAR finding number 1.3 for more information on vehicle allowances.

Ensuring all compensation earned by executives and administrators is presented in a transparent manner is in the best interest of the UM System and the public.

1.2 Chancellor Transition

With the approval of the then UM System President, the Columbia campus created a new position for the former Chancellor of the Columbia campus following his resignation in November 2015. The duties of the new position, the Director of National Security Research Development,¹ are not supported by the strategic plans of the UM System or the Columbia campus, the compensation for the position is significantly higher than other research administrators, and the Chancellor was allowed to keep additional compensation not required in his original contract.

Prior to his November 2015 resignation, the Chancellor provided the UM System with a list of conditions to his resignation, including potential job

¹ This position reports to the Dean of Engineering, the Vice Chancellor for Research and Graduate Studies at the Columbia campus, and the Vice President for Academic Affairs, Research and Economic Development at the UM System.



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duties of his new position and additional compensation provisions, which the then System President approved. The subsequent offer letter to the former Chancellor for the new position, signed by the Interim Chancellor of the Columbia campus in June 2016, contained all of the compensation-related provisions approved by the former System President, plus several additional provisions. The June 2016 offer letter also included more detail of the new position created. It is not clear what the Board of Curators' role was in the development of the former Chancellor's new position.

While the strategic plans for the UM System, as well as the Columbia campus, include language regarding the need for additional research dollars, there is no discussion of a strategic initiative for research in the area of national security or defense or any other specific area of research. In addition, the compensation for the Director of National Security Research Development was set at \$344,250 per year beginning in May 2016, which is based on 75 percent of the Chancellor's fiscal year 2016 salary. This level of compensation is 31 percent more than the highest paid research administrator on campus. The former Chancellor was granted "developmental leave" from June 20, 2016 through December 31, 2016 to allow him to travel the UM System and the country to "learn what we do," according to his offer letter for the Research Director position. The offer letter for the new position did not include any reporting requirements or stipulations of any measurable work product during the developmental leave of absence. This is an at-will position, and the agreement does not require the former Chancellor to return to his employment with the Columbia campus for a specified period after this leave of absence.

Additional compensation

Subsequent to his resignation as Chancellor in November 2015, in addition to 75 percent of his previous salary, the former Chancellor was provided significant compensation not required by his original chancellor contract, totaling approximately \$200,000.

- Approximately \$50,000 in unnecessary salary. Although the former Chancellor resigned his chancellor duties effective November 10, 2015, when an interim chancellor was named, he continued to receive his full chancellor salary of \$459,000 per year through April 30, 2016, despite having an agreement in place at the time of his resignation for a salary at 75 percent of his chancellor salary. System personnel provided no documentation of the former Chancellor's responsibilities during the period between his resignation in November 2015 and his new appointment as a Director effective May 2016.
- \$35,000 annual stipend in addition to his salary.
- \$15,560 per year in vehicle allowance. No other director level employee receives a vehicle allowance.



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- \$100,000 in retention payments to his deferred compensation account made as part of the original chancellor contract. The original chancellor contract stated any deferred compensation retention payments would be forfeited if the former Chancellor either voluntarily terminated employment or was dismissed with cause prior to January 2017. However, the former Chancellor was allowed to keep the deferred compensation retention payments if he remained in the new position until January 2017.
- \$50,000 travel budget for use during his developmental leave.

This level of compensation appears excessive for a non-critical administrative position, particularly for a position without a significant emphasis in the strategic plans for the system or the Columbia campus, and not in the best interest of the UM System, Columbia campus, or the public.

1.3 Vehicle Allowances

Vehicle allowances paid to UM System executives appear excessive and result in a lack of transparency in executive compensation. A total of approximately \$407,000 in vehicle allowance payments were made to an average of 15 top executive and administrative positions during the 2 years ended June 30, 2016. A detailed schedule of vehicle allowances paid is at Appendix D.

The method to calculate the vehicle allowances does not approximate the actual expenses incurred by the employees on behalf of the system. Rather, vehicle allowance amounts paid by the UM System are calculated to be equivalent to the system providing a leased luxury vehicle to each participating executive, including insurance and fuel. The participating individuals receive a base vehicle allowance of \$14,044 per year, or \$1,170 per month, to approximate the cost of a vehicle lease and insurance. Each individual's base vehicle allowance is then increased by an amount for estimated fuel costs, which is dependent upon how many estimated business miles the individual stated he/she will drive. For the year ended June 30, 2016, the system paid an average monthly vehicle allowance of approximately \$1,240 to 15 positions, including the President, five Vice Presidents, and four campus chancellors.

While providing vehicle allowances eliminates the need for mileage reimbursements for the participating individuals, the costs associated with the allowances are significantly higher than the potential costs of paying mileage reimbursements. The method used to calculate the system's vehicle allowances results in executives receiving, on average, more than 3 times what they would have received if they had been reimbursed for actual mileage at the UM System's mileage reimbursement rate of \$.51 per mile paid to all other employees. System administrators told us the vehicle allowances paid are intentionally structured to serve as part of the



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compensation package of the participating executives and are intended to be provided in lieu of a vehicle.

While all vehicle allowance payments were reported as taxable income to the Internal Revenue Service, they were not included in the publicly reported salary figures of system executives, resulting in reduced transparency of system expenditures. Including any additional compensation as part of the publicly reported salary amount for each employee, and requiring all employees submit reimbursement requests for actual miles, or basing vehicle allowances on reasonable estimates of actual mileage traveled, would improve the transparency of UM System expenses.

1.4 Treasurer's Salary

The Board of Curators does not approve all compensation for the Treasurer/Chief Investment Officer (CIO) as required by state law. Section 172.190, RSMo, states the Treasurer's "compensation shall be fixed by the board." While the Board of Curators approved the hiring and established the initial salary of the Treasurer/CIO, the Board has not approved subsequent merit increases, incentive payments, and retention agreements.

Recommendations

The Board of Curators:

- 1.1 Ensure the incentive pay program utilizes specific and objective measurement criteria to determine when incentive payments have been earned, and ensure all individuals participating in the program are clearly designated and notified. The Board of Curators should also ensure all incentive criteria have been met, approve all such payments, and ensure reported salaries include all compensation.
- 1.2 Ensure compensation terms for administrators are in the best interest of the UM System, the universities, and taxpayers.
- 1.3 Ensure vehicle allowances are based on reasonable estimates of actual mileage, or reimburse executives based on actual miles traveled.
- 1.4 Approve the compensation of the Treasurer/CIO in accordance with state law.

Auditee's Response

- 1.1 *After a review of a full range of the UM System (System) administration operations, the audit report's findings are limited to executive compensation and acknowledge that the System's use of a program to pay leaders based on performance is allowable under the law. Indeed, the System believes paying its leaders based on performance is good stewardship that should be encouraged in the best interests of the state and its citizens. While finding the System's performance program is permissible, the report opines that the absence of consistent documentation and the use of subjective,*



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rather than numerical, criteria could give the "appearance" of violating the state constitution. The System's use and implementation of its performance compensation plan, however, does not violate or even appear to violate the state constitution. It is a reasonable and sound management tool used to attract and retain talent and align individual efforts with institutional goals. Nonetheless, consistent with the report's recommendation, the System will strive to better document the plan and make performance goals more objective, when appropriate.

Additionally, the report finds no violations of law or System rules regarding transparency of executive compensation. The System complies with all requirements for reporting and disclosing such information and takes the extra step of publishing salary information on its website. Despite finding no violations, the report recommends greater transparency of executive compensation. Consistent with the report's recommendation, the System will continue to work towards achieving transparency beyond what is required by the law.

In 2008, the Board of Curators approved CRR 20.130 in public session directing the President to implement an "executive compensation and performance plan" to "facilitate recruitment, retention and meaningful performance assessment of executive staff" and to align executives' efforts to "support the strategic planning, mission and values of the University, as determined annually by the University President." The program is designed to achieve annual total compensation (incentive, retention, automobile allowances) by position no lower than the midpoint of the most appropriate peer institutions' compensation ranges.

The report states that the incentive compensation program is not sufficiently formalized and documented. However, CRR 20.130 expressly defines which individuals participate in the program and the rule (or a separate writing) provides employees with formal notice that they are subject to the program. The rule also defines what level of performance is required. Additionally, performance goals are documented in writing and measured by the President each year based on documented performance. The report acknowledges that delegating the performance assessment of executives to the President is reasonable. Intentionally linking individuals' performance criteria to strategic and operational goals is a sound management practice and in the public interest. Many of those criteria are quantifiable metrics or otherwise objective; but some performance does not lend itself to strict numerical criteria



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and necessarily involves some degree of subjective evaluation of job performance.

While the use of subjective criteria does not make a performance program impermissible, the System agrees with the report that improvement in the use of quantifiable metrics or other objective criteria is desirable and will work to enhance the goal setting process in that manner. It will strive to better document the goals and the performance under the goals.

*Nothing in the System's plan violates the state constitution or gives any reasonable appearance of doing so. The provision referenced in the report states, "[t]he general assembly shall not have power ... (3)[t]o grant ... any extra compensation, fee or allowance to an officer, agent, servant, or contractor after service has been rendered." The Board of Curators is not the general assembly (or a municipality) and under the performance plan it openly adopted over eight years ago there is no "extra" compensation awarded to personnel. The maximum amount of incentive pay is fixed in advance by rule or contract and awarded based on performance during the year. The fact that performance incentives are paid after the conclusion of a particular period and following evaluation does not suggest that they violate Article III, Section 39(3). The law in Missouri is that "Section 39(3) pertains to extra compensation given after the service has been performed, not to compensation earned during the service but taken after the period of service." *Vangilder v. City of Jackson*, 492 S.W.2d 15, 18 (Mo. App. 1973). The System's performance incentive plan provides the public with more protection against award of unearned, extra compensation in the spirit of Article III, Section 39(3), not less.*

The report acknowledges that delegating assessment of executives to the President is reasonable, but recommends that the Board approve each individual amount the President awards to his direct reports under the performance program. There is no law or standard requiring such Board approval; nor is it advisable. The program was intentionally designed to give authority to the President in dealing with his direct reports. Under CRR 20.130, the President assesses the performance of his direct reports and awards performance payments. The President informs the Board of the peer institutions used for purposes of compensation comparisons and informs the Board of the total cost of the program. The respective roles of the President and the Board are the result of a purposeful design of the program approved by the Board. Nonetheless, the System agrees with the report's recommendation to the extent that the Board of Curators should remain informed and exercise



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oversight of the program in a manner appropriate for a governing board.

The report criticizes the transparency of executive compensation, although it cites no failure of the System to comply with any reporting or disclosure requirements. With regard to salaries, the System complies with all legal requirements to report salary information for publication in the State of Missouri Manual (Blue Book) and takes the extra step of publishing salary information on its website. With regard to the performance incentive program, the program was discussed and adopted in open session by the Board of Curators during a public meeting in June 2008; the program was codified into the System's Collected Rules and Regulations (CRR), which are publicly available; and the program has been posted on the System's website for over eight years. Also, the System has on many occasions publicly released employment contracts and appointment letters providing compensation information, including participation in the incentive program.

The report does not find a failure to comply with any reporting or disclosure requirements, but concludes that "ensuring all compensation earned by executives and administrators is presented in a transparent manner is in the best interest of the UM System and the public." The System agrees with the report's conclusion in this regard and will continue to work towards transparency beyond the requirements of the law.

Auditor Comment

The response states the Board of Curators rule regarding the incentive program "defines what level of performance is required." Our review of the rule shows that rather than requiring a certain level of performance, the rule instead defines what level of compensation the program should achieve for its participants. The rule states the incentive program should provide compensation that is "no lower than the median" of the market of peer institutions. If the program's goal is to provide a predefined level of compensation, this further confirms our conclusion that the incentive payments are merely additional compensation rather than payments to incentivize specific, measurable higher performance. In addition, the response states many of the criteria used to measure performance are "quantifiable" or "otherwise objective." Our review of the documentation determined the measurement criteria in place are almost entirely subjective. Payments made for a prior fiscal year that are not based on clear, objective, and measurable criteria are not incentive payments, but simply extra payment for work already performed.

1.2 *The System acknowledges that the Chancellor transition unfolded under historically challenging circumstances and the resulting transition agreement was the product of significant negotiation. The*



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System agrees with the report's recommendation to ensure compensation terms for administrators are in the best interest of the UM System, its universities, and taxpayers.

- 1.3 *The System does not provide vehicle allowances to executives to reimburse them for miles traveled. Instead, the System provides the allowances as one component of a compensation package. Doing this as a part of an executive compensation package is common in the market set by peer institutions. As discussed above, the System strives to put total compensation for executives at the market midpoint. As part of that package, the vehicle allowances are not excessive but instead are market driven. Nothing prohibits the System – like other higher education institutions – from using a vehicle or vehicle allowance as part of a compensation package and there is no requirement that the System pay only mileage reimbursement. The System implements the allowance in a proper manner, providing a taxable, leased vehicle or taxable allowance in lieu of a work-related vehicle. The System agrees to review the structure of this program and update it, as appropriate.*
- 1.4 *The Board of Curators, in compliance with state law, "fixed" the initial compensation terms of the Treasurer/Chief Investment Officer (CIO) by approving the terms of his appointment when he was hired. While the Board is generally aware of the Treasurer/CIO's compensation since his hiring, it has not annually approved each modification to his compensation since then. The System agrees the Board of Curators will have an annual opportunity to consider and "fix" adjustments to the Treasurer/CIO's compensation.*

University of Missouri System Administration

Organization and Statistical Information

The University of Missouri (UM) System had a single campus until 1870, when the School of Mines and Metallurgy was established in Rolla, now called Missouri University of Science and Technology. In the same year, the UM System assumed land-grant responsibilities of providing higher education opportunities for all citizens. In 1963, the UM System expanded by founding a new campus in St. Louis and through acquiring the University of Kansas City, creating the present four-campus system.

In fall 2016, enrollment at the four UM System campuses totaled 75,999 students. This total includes both undergraduate and graduate students enrolled full or part-time. The UM System employed 27,860 full and part-time employees as of fall 2015, including faculty, staff, and graduate assistants. Approximately 500 employees work for the UM System administration.

The UM System is governed by a nine-member Board of Curators appointed by the Governor, with the advice and consent of the Missouri Senate. A current University of Missouri-Columbia student sits on the board as a non-voting member. The student representative position rotates every 2 years between the Columbia, Kansas City, Rolla and St. Louis campuses. These individuals serve without compensation, but receive reimbursement for any expenses incurred in performing their duties.

Board of Curators

The Board of Curators as of June 30, 2016, consisted of the following members:

| Name | Position | Term Ends |
|----------------------|------------------------|--------------|
| Maurice B. Graham | Board Vice Chair | January 2021 |
| Pamela Q. Henrickson | Board Chair | January 2017 |
| John R. Phillips | Board Member | January 2019 |
| Phillips H. Snowden | Board Member | January 2021 |
| Donald L. Cupps | Board Member | January 2017 |
| David L. Steelman | Board Member | January 2019 |
| Jon T. Sunvold | Board Member | January 2017 |
| Thomas R. Voss | Board Member | January 2021 |
| Patrick Graham | Student Representative | January 2018 |

Appendix A-1

University of Missouri - System Administration
 Statement of Revenues, Expenses, and Changes in Net Position
 For the Year Ended June 30, 2016

| | Current Funds | | Endowment & Similar Funds | Plant Funds | Total Funds |
|---|----------------------|--------------------|------------------------------|--------------------|------------------------------------|
| | Unrestricted | Restricted | | | Excluding Agency and Retirement |
| OPERATING REVENUES | | | | | |
| Student Fees (net scholarship allowances) | \$ (100,059) | (9,151) | 0 | 0 | (109,210) |
| Federal Grants and Contracts | 0 | 0 | 0 | 0 | 0 |
| State and Local Grants and Contracts | 0 | 9,151 | 0 | 0 | 9,151 |
| Private Grants and Contracts | 0 | 0 | 0 | 0 | 0 |
| Sales and Services of Education Activities | 998,689 | 0 | 0 | 0 | 998,689 |
| Auxiliary Enterprises: | | | | | |
| Patient Medical Services | 0 | 0 | 0 | 0 | 0 |
| Housing and Dining Services | 0 | 0 | 0 | 0 | 0 |
| Bookstores | 0 | 0 | 0 | 0 | 0 |
| Other Medical Services | (6,007) | 0 | 0 | 0 | (6,007) |
| Other Auxiliary Enterprises | 30,394,171 | 0 | 0 | 0 | 30,394,171 |
| Notes Receivable Interest Income, Net of Fees | 0 | 0 | 0 | 0 | 0 |
| Other Operating Revenues | 12,748,579 | 5,117 | 0 | 12,244 | 12,765,940 |
| Facilities & Administrative Cost Recovery | 0 | 0 | 0 | 0 | 0 |
| Total Operating Revenues | <u>44,035,373</u> | <u>5,117</u> | <u>0</u> | <u>12,244</u> | <u>44,052,734</u> |
| OPERATING EXPENSES | | | | | |
| Salaries and Wages | 36,673,165 | 41,172 | 0 | 0 | 36,714,337 |
| Staff Benefits | 12,170,974 | 10,215 | 0 | 0 | 12,181,189 |
| Supplies, Services and Other Operating Expenses | 14,602,293 | 1,359,645 | 96,238 | 623,098 | 16,681,274 |
| Capital Expense | 28,639 | 0 | 0 | 168,959 | 197,598 |
| Depreciation | 0 | 0 | 0 | 5,792,734 | 5,792,734 |
| Total Operating Expenses | <u>63,475,071</u> | <u>1,411,032</u> | <u>96,238</u> | <u>6,584,791</u> | <u>71,567,132</u> |
| Operating Income (Loss) before State Appropriations and Nonoperating Revenues (Expenses) | <u>(19,439,698)</u> | <u>(1,405,915)</u> | <u>(96,238)</u> | <u>(6,572,547)</u> | <u>(27,514,398)</u> |
| State Appropriations | <u>15,252,177</u> | <u>1,500,000</u> | <u>0</u> | <u>0</u> | <u>16,752,177</u> |
| Operating Income (Loss) after State Appropriations, before Nonoperating Revenues(Expenses) | <u>(4,187,521)</u> | <u>94,085</u> | <u>(96,238)</u> | <u>(6,572,547)</u> | <u>(10,762,221)</u> |
| NON-OPERATING REVENUES(EXPENSES) | | | | | |
| Federal Appropriations | 0 | 0 | 0 | 0 | 0 |
| Federal subsidies for Build America Bonds interest | 0 | 0 | 0 | 0 | 0 |
| Pell Grants | 0 | 0 | 0 | 0 | 0 |
| Realized Gain/Loss | 18,662,759 | 81,065 | 1,982,785 | (43,161) | 20,683,448 |
| Unrealized Gain/Loss | 0 | 0 | (2,051,148) | 0 | (2,051,148) |
| Private Gifts | 70,500 | 99,970 | 0 | 0 | 170,470 |
| Interest Expense | 0 | 0 | 0 | 0 | 0 |
| Retirement Benefits, Net of University Contribution | 0 | 0 | 0 | 0 | 0 |
| Payments to Beneficiaries | 0 | 0 | 0 | 0 | 0 |
| Gain/Loss on Asset Disposal | 1,101 | 0 | 0 | 44,325 | 45,426 |
| Other Nonoperating Revenues (Expenses) | 0 | 0 | 0 | 0 | 0 |
| Net Nonoperating Revenues (Expenses) before Transfers | <u>18,734,360</u> | <u>181,035</u> | <u>(68,363)</u> | <u>1,164</u> | <u>18,848,196</u> |
| Mandatory Transfers In (Out) | 0 | 0 | 0 | 0 | 0 |
| Non Mandatory Transfers In (Out) | (4,502,275) | (142,644) | 324,760 | 3,767,563 | (552,596) |
| Intra Fund Transfers In (Out) | <u>(11,180,412)</u> | <u>(126,658)</u> | <u>0</u> | <u>0</u> | <u>(11,307,070)</u> |
| Net Nonoperating Revenues (Expenses) and Transfers | <u>3,051,673</u> | <u>(88,267)</u> | <u>256,397</u> | <u>3,768,727</u> | <u>6,988,530</u> |
| INCREASE (DECREASE) IN NET ASSETS | <u>(1,135,848)</u> | <u>5,818</u> | <u>160,159</u> | <u>(2,803,820)</u> | <u>(3,773,691)</u> |
| NET POSITION, BEGINNING OF YEAR | <u>44,467,724</u> | <u>292,929</u> | <u>53,804,642</u> | <u>59,444,845</u> | <u>158,010,140</u> |
| NET POSITION, END OF YEAR | <u>\$ 43,331,876</u> | <u>298,747</u> | <u>53,964,801</u> | <u>56,641,025</u> | <u>154,236,449</u> |

Source: The University of Missouri System's audited financial statements.

Appendix A-2

University of Missouri - System Administration
 Statement of Revenues, Expenses, and Changes in Net Position
 For the Year Ended June 30, 2015

| | Current Funds | | Endowment & Similar Funds | Plant Funds | Total Funds Excluding Agency and Retirement |
|---|----------------------|------------------|------------------------------|--------------------|---|
| | Unrestricted | Restricted | | | |
| OPERATING REVENUES | | | | | |
| Student Fees (net scholarship allowances) | \$ (59,858) | 0 | 0 | 0 | (59,858) |
| Federal Grants and Contracts | 0 | (620) | 0 | 0 | (620) |
| State and Local Grants and Contracts | 0 | 0 | 0 | 0 | 0 |
| Private Grants and Contracts | 0 | 0 | 0 | 0 | 0 |
| Sales and Services of Education Activities | 413,647 | 0 | 0 | 0 | 413,647 |
| Auxiliary Enterprises: | | | | | |
| Patient Medical Services | 0 | 0 | 0 | 0 | 0 |
| Housing and Dining Services | 0 | 0 | 0 | 0 | 0 |
| Bookstores | 0 | 0 | 0 | 0 | 0 |
| Other Medical Services | (779) | 0 | 0 | 0 | (779) |
| Other Auxiliary Enterprises | 30,898,716 | 0 | 0 | 0 | 30,898,716 |
| Notes Receivable Interest Income, Net of Fees | 0 | 0 | 0 | 0 | 0 |
| Other Operating Revenues | 8,643,788 | 6,048 | 43,355 | 0 | 8,693,191 |
| Facilities & Administrative Cost Recovery | (140) | 140 | 0 | 0 | 0 |
| Total Operating Revenues | <u>39,895,374</u> | <u>5,568</u> | <u>43,355</u> | <u>0</u> | <u>39,944,297</u> |
| OPERATING EXPENSES | | | | | |
| Salaries and Wages | 35,028,833 | 76,437 | 0 | 0 | 35,105,270 |
| Staff Benefits | 11,578,009 | 12,541 | 0 | 0 | 11,590,550 |
| Supplies, Services and Other Operating Expenses | 18,705,859 | 683,687 | 49,199 | 1,362,165 | 20,800,910 |
| Capital Expense | 591,240 | 0 | 0 | (653,370) | (62,130) |
| Depreciation | 0 | 0 | 0 | 5,611,497 | 5,611,497 |
| Total Operating Expenses | <u>65,903,941</u> | <u>772,665</u> | <u>49,199</u> | <u>6,320,292</u> | <u>73,046,097</u> |
| Operating Income (Loss) before State Appropriations and Nonoperating Revenues (Expenses) | <u>(26,008,567)</u> | <u>(767,097)</u> | <u>(5,844)</u> | <u>(6,320,292)</u> | <u>(33,101,800)</u> |
| State Appropriations | 14,812,488 | 871,774 | 0 | 0 | 15,684,262 |
| Operating Income (Loss) after State Appropriations, before Nonoperating Revenues(Expenses) | <u>(11,196,079)</u> | <u>104,677</u> | <u>(5,844)</u> | <u>(6,320,292)</u> | <u>(17,417,538)</u> |
| NON-OPERATING REVENUES(EXPENSES) | | | | | |
| Federal Appropriations | 0 | 0 | 0 | 0 | 0 |
| Federal subsidies for Build America Bonds interest | 0 | 0 | 0 | 0 | 0 |
| Pell Grants | 0 | 0 | 0 | 0 | 0 |
| Realized Gain/Loss | 18,107,733 | 128,647 | 3,313,010 | (51,055) | 21,498,335 |
| Unrealized Gain/Loss | 0 | 0 | (2,801,647) | 0 | (2,801,647) |
| Private Gifts | 32,500 | 102,947 | 232,702 | 0 | 368,149 |
| Interest Expense | 0 | 0 | 0 | 0 | 0 |
| Retirement Benefits, Net of University Contribution | 0 | 0 | 0 | 0 | 0 |
| Payments to Beneficiaries | 0 | 0 | (346,396) | 0 | (346,396) |
| Gain/Loss on Asset Disposal | 13,804 | 0 | 0 | (111,545) | (97,741) |
| Other Nonoperating Revenues (Expenses) | 24,972,280 | 0 | 0 | 0 | 24,972,280 |
| Net Nonoperating Revenues (Expenses) before Transfers | <u>43,126,317</u> | <u>231,594</u> | <u>397,669</u> | <u>(162,600)</u> | <u>43,592,980</u> |
| Mandatory Transfers In (Out) | 0 | 0 | 0 | 14,250 | 14,250 |
| Non Mandatory Transfers In (Out) | (7,395,289) | (392,253) | 0 | 7,314,624 | (472,918) |
| Intra Fund Transfers In (Out) | (18,266,453) | (156,632) | 0 | 1,026,856 | (17,396,229) |
| Net Nonoperating Revenues (Expenses) and Transfers | <u>17,464,575</u> | <u>(317,291)</u> | <u>397,669</u> | <u>8,193,130</u> | <u>25,738,083</u> |
| INCREASE (DECREASE) IN NET ASSETS | <u>6,268,496</u> | <u>(212,614)</u> | <u>391,825</u> | <u>1,872,838</u> | <u>8,320,545</u> |
| NET POSITION, BEGINNING OF YEAR | <u>38,199,228</u> | <u>505,543</u> | <u>53,412,817</u> | <u>57,572,007</u> | <u>149,689,595</u> |
| NET POSITION, END OF YEAR | <u>\$ 44,467,724</u> | <u>292,929</u> | <u>53,804,642</u> | <u>59,444,845</u> | <u>158,010,140</u> |

Source: The University of Missouri System's audited financial statements.

Incentive Payments

The following table includes all incentive payments to executives and administrators of the UM System during the 2 years ended June 30, 2016, as well as payments made during fiscal year 2017. Incentive payments are made to recipients early in the fiscal year for performance in the previous year. Recipients are given the option of receiving payments via a taxable one-time payment through the payroll system, or through a payment into their deferred compensation account. The recipients received almost all of these payments through the payroll system.

| Name | Job Title | Fiscal Year | | | Total |
|-------------------|---|-------------|---------|---------|-----------|
| | | 2017 | 2016 | 2015 | |
| Tim Wolfe | President* | \$ NA | 50,000 | 68,750 | 118,750 |
| Cindy Harmon | Board Secretary* | 8,155 | 7,842 | 7,577 | 23,574 |
| Steve Owens | General Counsel* | 41,391 | 46,789 | 32,514 | 120,694 |
| Zora Mulligan | Chief of Staff | 16,145 | 15,675 | NA | 31,820 |
| Gary Allen | Vice President (VP), Information Technology | 21,605 | 21,663 | 22,093 | 65,361 |
| Brian Burnett (1) | VP, Chief Financial Officer | 27,810 | 28,500 | NA | 56,310 |
| Hank Foley | VP, Academic Affairs and Sr. Vice Chancellor for Research and Graduate Studies | 39,933 | 33,075 | 33,250 | 106,258 |
| Steve Knorr | VP, University Relations | 20,070 | 17,888 | 19,350 | 57,308 |
| Betsy Rodriguez | VP, Human Relations | NA | 23,520 | 23,644 | 47,164 |
| Steve Graham | Senior Associate VP for Academic Affairs | 20,927 | 18,286 | 15,780 | 54,993 |
| Tony Hall | Director of Procurement | 16,767 | 16,318 | NA | 33,085 |
| Tom Richards | Treasurer and Chief Investment Officer | 20,791 | 21,373 | 23,690 | 65,854 |
| Bob Schwartz | Associate VP, Academic Affairs | 21,250 | NA | 17,613 | 38,863 |
| Kelley Stuck | Associate VP, Human Resources | 21,420 | 19,695 | 19,121 | 60,236 |
| Tom George | Chancellor, St. Louis Campus | 27,183 | 23,985 | 24,839 | 76,007 |
| R. Bowen Loftin | Chancellor, Columbia Campus | NA | 40,500 | 18,900 | 59,400 |
| Leo Morton (2) | Chancellor, Kansas City Campus | 27,487 | 25,204 | 26,686 | 79,377 |
| Cheryl Schrader | Chancellor, Rolla Campus | 28,471 | 27,405 | 27,550 | 83,426 |
| Totals | | \$ 359,405 | 437,718 | 381,357 | 1,178,480 |

* Position reports directly to the Board of Curators.

(1) Amounts were awarded but never paid due to contractual retention requirements.

(2) Amount for 2015 was awarded, but was declined by the recipient.

NA Not applicable; the individual wasn't in the position to be eligible to receive an incentive payment.

Source: UM System records

Other Compensation

The following table presents additional executive compensation paid during the 2 years ended June 30, 2016, including contractual relocation payments, retention payments, and housing allowance payments.

| Name | Job Title | Fiscal Year | | Total |
|--------------------------------|---|-------------------|----------------|----------------|
| | | 2016 | 2015 | |
| Relocation Payments (1) | | | | |
| Brian Burnett | VP, Chief Financial Officer | \$ 0 | 30,000 | 30,000 |
| R. Bowen Loftin | Chancellor, Columbia Campus | 0 | 130,000 | 130,000 |
| Zora Mulligan | Chief of Staff | 0 | 20,000 | 20,000 |
| Total | | 0 | 180,000 | 180,000 |
| Housing Allowance | | | | |
| Tim Wolfe | President | 12,000 | 28,800 | 40,800 |
| Cheryl Schrader | Chancellor, Rolla Campus | 7,280 | 0 | 7,280 |
| Leo Morton | Chancellor, Kansas City Campus | 57,300 | 57,300 | 114,600 |
| Total | | 76,580 | 86,100 | 162,680 |
| Retention Payments (2) | | | | |
| Tim Wolfe | President | 50,000 | 68,500 | 118,500 |
| Gary Allen | Vice President (VP), Information Technology | 25,000 | 25,000 | 50,000 |
| Hank Foley | VP, Academic Affairs and Sr. Vice Chancellor for Research and Graduate Studies | 55,000 | 55,000 | 110,000 |
| Tom Richards | Treasurer and Chief Investment Officer | 10,000 | 0 | 10,000 |
| R. Bowen Loftin | Chancellor, Columbia Campus | 50,000 | 50,000 | 100,000 |
| Cheryl Schrader | Chancellor, Rolla Campus | 51,000 | 51,000 | 102,000 |
| Total | | 241,000 | 249,500 | 490,500 |
| Grand Total | | \$ 317,580 | 515,600 | 833,180 |

(1) Relocation payments are contractual, are awarded when the contract is signed, but are not dependent on the individual physically relocating for the position being offered.

(2) Retention payments are considered "at risk," since they are not received by the recipient until certain contractual retention milestones are met.

Source: UM System records

Vehicle Allowances

The following table includes all vehicle allowance payments made to UM System executives during the 2 years ended June 30, 2016.

| Name | Job Title | Fiscal Year | | Total |
|-----------------|---|-------------------|----------------|----------------|
| | | 2016 | 2015 | |
| Tim Wolfe | President | \$ 7,115 | 14,613 | 21,728 |
| Mike Middleton | President | 8,607 | 0 | 8,607 |
| Steve Owens | General Counsel | 15,688 | 13,805 | 29,493 |
| Kevin McDonald | Chief Diversity, Equity and Inclusion Officer | 1,008 | 0 | 1,008 |
| Zora Mulligan | Chief of Staff | 15,050 | 9,443 | 24,493 |
| Ryan Rapp | Chief Audit Executive | 14,048 | 0 | 14,048 |
| Gary Allen | Vice President (VP), Information Technology | 14,751 | 12,932 | 27,683 |
| Brian Burnett | VP, Chief Financial Officer | 15,458 | 11,698 | 27,156 |
| Hank Foley | VP, Academic Affairs and Sr. Vice Chancellor for Research and Graduate Studies | 15,561 | 13,772 | 29,333 |
| Steve Knorr | VP, University Relations | 15,902 | 14,385 | 30,287 |
| Betsy Rodriguez | VP, Human Relations | 7,459 | 13,024 | 20,483 |
| Steve Graham | Senior Associate VP for Academic Affairs | 14,825 | 13,139 | 27,964 |
| Tom Richards | Treasurer and Chief Investment Officer | 13,314 | 12,754 | 26,068 |
| Bob Schwartz | Associate VP, Academic Affairs | 10,837 | 1,804 | 12,641 |
| Kelley Stuck | Associate VP, Human Resources | 18,606 | 0 | 18,606 |
| Tom George (1) | Chancellor, St. Louis Campus | - | - | - |
| R. Bowen Loftin | Chancellor, Columbia Campus | 15,600 | 15,600 | 31,200 |
| Leo Morton | Chancellor, Kansas City Campus | 15,038 | 13,080 | 28,118 |
| Cheryl Schrader | Chancellor, Rolla Campus | 14,809 | 13,369 | 28,178 |
| Totals | | \$ 233,676 | 173,418 | 407,094 |

(1) Chancellor George utilizes a vehicle provided by the St. Louis campus and is not paid a vehicle allowance.

Source: UM System records