Office of Missouri State Auditor

Nicole Galloway, CPA

Higher Education

Harris-Stowe State University

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CITIZENS SUMMARY

Findings in the audit of Harris-Stowe State University

Board Oversight of University Resources and Budgets	Continuous oversight by the Board of Regents is needed to ensure the efficient use of university resources while facing declining state appropriations. The Board has not established fund balance benchmarks and/or minimums to ensure sufficient funding for university operations, although Board minutes indicate the Board discussed the need for a "rainy day fund." University budgets are not complete.
Student Account Balances	The university is not following established procedures for the monitoring, follow up, and collection of tuition and fees on student accounts. Significant improvement is needed in the monitoring and collection of student accounts. The university does not have written policies and procedures for the issuance, monitoring, and collection of emergency loans made to students.
Payroll and Personnel Procedures	Numerous problems existed with the university's payroll and personnel procedures. The university paid individuals that did not have payroll or personnel files to support their employment and other employment records were incomplete. Timesheets required for hourly employees were not prepared or maintained for some employees. The university only performs background checks that identify Missouri criminal records despite actively recruiting and hiring employees from other states.
Disbursements	The university does not ensure employees follow credit card and travel policies and procedures and allows employees to continue making significant credit card purchases without supporting documentation. Some university disbursements should be further evaluated to ensure they provide a benefit to the university.
Early Childhood Development Center	The university subsidizes the William L. Clay Early Childhood Development/Parenting Education Center (ECDC) due to the program's annual operating losses. In addition, the ECDC does not sufficiently monitor outstanding balances due, enforce current policies for payment of outstanding balances, or have an updated agreement with another university for use of its facilities leading to further potential losses.
Tuition Analysis	University officials have not conducted a recent formal analysis of the impact on enrollment due to potential tuition rate changes or charging students for all credit hours.
Sunshine Law	The university did not always comply with the Sunshine Law. The Board discussed several topics in closed meetings that are not allowable by state law. The Board generally uses the same statement for each meeting notice/agenda to indicate the potential for a closed meeting, instead of citing the specific section of the law as the reason for a closed meeting. The public record request log documenting Sunshine Law requests is not complete.
University Foundation	The university subsidizes certain operating expenses of the University Foundation. In addition, the university has no formal contract or agreement with the Foundation and the University President is overseeing the Foundation because a Foundation Board of Directors has not been established.

Accounting Controls and Procedures	Significant improvements are needed in the university's cash handling and accounting procedures. Receipts are not deposited timely and intact. Receipt slips are not issued for monies transmitted to the Bursar's office by the Athletic Department and the ECDC. Voided system transactions do not require supervisory approval, are not periodically reviewed by an independent person or supervisor, and are not adequately documented. The university has not established procedures to routinely follow up on outstanding payroll checks.
Capital Assets	The university does not always follow its policies and procedures for capital assets.

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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Missouri State Auditor

Honorable Michael L. Parson, Governor
and
Board of Regents of Harris-Stowe State University
and
Dr. Dwaun J. Warmack, President
Harris-Stowe State University
St. Louis, Missouri

We have audited certain operations of Harris-Stowe State University, in fulfillment of our duties under Chapter 29, RSMo. In addition, the audit was performed at the request of the Harris-Stowe State University Board of Regents. The university engaged RubinBrown LLP, Certified Public Accountants (CPAs), to audit the university's financial statements for the year ended June 30, 2017, and June 30, 2016. To minimize duplication of effort, we reviewed the report and substantiating working papers of the CPA firm for the year ended June 30, 2016, since the year ended June 30, 2017, audit had not been completed at the time we started the audit. We subsequently reviewed the report of the CPA firm for the year ended June 30, 2017, upon its completion. The scope of our audit included, but was not necessarily limited to, the years ended June 30, 2017 and 2016. The objectives of our audit were to:

1. Evaluate the university's internal controls over significant management and financial functions.

2. Evaluate the university's compliance with certain legal provisions.

3. Evaluate the economy and efficiency of certain management practices and procedures, including certain financial transactions.

Our methodology included reviewing minutes of meetings, written policies and procedures, financial records, and other pertinent documents; interviewing various personnel of the university, as well as certain external parties 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 tested certain of those controls to obtain evidence regarding the effectiveness of their design and 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 the university's management and was not subjected to the procedures applied in our audit of the university.

For the areas audited, we identified deficiencies in internal controls, noncompliance with legal provisions, and the need for improvement in management practices and procedures. The accompanying Management Advisory Report presents our findings arising from our audit of Harris-Stowe State University.

Nicole R. Galloway, CPA
State Auditor

The following auditors participated in the preparation of this report:

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1. Board Oversight of University Resources and Budgets

Continuous oversight by the Board of Regents is needed to ensure the efficient use of university resources while facing declining state appropriations. Also, the Board did not budget for all funds or include necessary information in budget documents.

1.1 Oversight of university resources

The Board has not established fund balance benchmarks and/or minimums to ensure sufficient funding for university operations, although Board minutes indicate the Board discussed the need for a "rainy day fund." As noted throughout this report, the university did not adequately monitor and ensure outstanding amounts due were collected (see MAR finding number 2), made unsupported or non-essential disbursements (see MAR finding numbers 3 and 4), subsidized other non-higher education operations (see MAR findings numbers 5 and 8) , did not adequately safeguard university assets (see MAR finding number 10), and did not formally study the impact of potential tuition changes (see MAR finding number 6), while state appropriations were flat or decreasing. The university's fund and unrestricted cash balances have decreased since 2015, indicating the need to continue to consider fund and/or cash balance benchmarks.

The following table presents the actual and projected change in fund balance for the 5 years ended June 30, 2019:

	Fiscal Year Ended June 30,				
	2019 Budgeted	2018 Not Audited	2017 Actual	2016 Actual	2015 Actual
Beginning Fund Balance	$ 25.6	26.2	28.0	27.3	25.4
Operating Revenues	17.8	16.7	15.6	14.9	13.3
Non-operating Revenues	16.5	15.7	14.8	14.8	14.7
Total Funds Available	59.9	58.6	58.4	57.0	53.4
Less: Expenditures	34.0	33.0	32.2	29.0	26.1
Ending Fund Balance	$ 25.9	25.6	26.2	28.0	27.3
Fund Balance Increase/(Decrease)	$ 0.3	(0.6)	(1.8)	0.7	1.9

Source: 2015, 2016, and 2017 audited financial statements. Amounts for fiscal years 2018 and 2019 were provided by the university. Amounts presented are in millions of dollars.

The following table presents the unrestricted cash, cash equivalents, and other long-term investments balances for the 5 years ended June 30, 2018.

	June 30,				
	2018 Not Audited	2017 Actual	2016 Actual	2015 Actual	2014 Actual
Unrestricted Cash and Cash Equivalents	$ 3.7	5.6	6.2	6.9	5.0
Unrestricted Long-Term Investments	2.3	2.1	1.9	1.9	1.9
Total	$ 6.0	7.7	8.1	8.8	6.9

Source: Year ended June 30, 2015, 2016, and 2017 audited financial statements. Amounts for June 30, 2018, were provided by the university. Amounts presented are in millions of dollars.

The university's fiscal year 2017 audited financial statements show the university continues to be affected by lower or flat state appropriations, which represent the largest single portion of its revenue (30 percent in 2017). In fiscal years 2017 and 2018 the university sustained decreases in state core funding totaling approximately $1.1 million. State core funding reductions in 2017 ($153,000) and 2018 ($986,000) represented approximately 2 and 9 percent of the core funding, respectively. The reductions contributed to budgetary restrictions including a hiring freeze, no employee raises except for faculty, and delaying capital improvements. While the General Assembly approved a slightly higher appropriation for the fiscal year 2019 budget due to 2 additional specific appropriations of $750,000 each, the Governor reduced the additional amounts to $500,000 and $250,000, indicating the university may not be able to depend on further increases.

During these years of reduced or flat state appropriations, the university did not ensure students resolved outstanding balances prior to registering, declined to pursue further collection efforts for unsupported credit card transactions and made other non-essential purchases (see MAR finding numbers 2 and 4). The university also is subsidizing the Early Childhood and Development Center due to operating losses and the University Foundation (see MAR finding numbers 5 and 8). In addition, the university did not formally study the impact of tuition changes and not charging tuition for several credit hours (see MAR finding number 6).

The university's reliance on state appropriations for a large portion of its revenue when those appropriations are declining or flat, makes it essential the Board continuously oversee the use of university resources, safeguard assets, and consider other potential revenue sources if necessary to ensure the efficient use of resources and adequate operating fund balances.

1.2 Budget procedures

University budgets are not complete. The university only prepared annual budgets for 4 of its 20 funds for the fiscal years ended June 30, 2016, 2017, and 2018. Those funds include the General Revenue, Gillespie Residence Hall, Bosley Residence Hall and Dining Facility, and the Early Childhood Development Center Funds. University officials stated they only prepare budgets for operating funds. Also, the budget documents approved by the Board for the years ended June 30, 2016, 2017, and 2018 only included the prior year and current year budgeted revenues and expenditures. The budgets did not include the beginning and estimated ending available resources for each fund or comparative statements of actual or estimated actual revenues and expenditures for the 2 previous years. Because the budget preparation process begins before the completion of the prior fiscal year, having comparative information from the 2 previous years can provide valuable information.

Budgets present a complete financial plan for the ensuing budget year. A complete and well-planned budget can serve as a useful management tool by establishing specific revenue and cost expectations for each area. Beginning and ending available resources and comparative statements to prior years are necessary to ensure budgeted amounts are realistic based on past performance and the complete financial position of the budgeted funds is presented.

Recommendation

The Board of Regents:

1.1 Consider setting benchmarks or minimums for fund balances to ensure sufficient resources for university operation and continue to eliminate unnecessary spending and evaluate controls and management practices to ensure efficient use of university resources.

1.2 Ensure the budget documents prepared by the university include all planned financial activity of the university and essential budgetary information.

Auditee's Response

1.1 As a preliminary matter, it is worth pointing out that the Board initiated this state audit to gain insight and for the purpose of continuing assisting the university in becoming a premier institution of higher learning. In working with the State Auditor's Office, we were impressed with their thoroughness, dedication and professionalism. Although we do not see eye to eye with the State Auditor on several points — points that, as explained throughout our responses, we believed required further explanation and context — the university appreciates each of the recommendations and is eagerly taking steps to address the Auditor's concerns as needed. The university worked hard to efficiently use its resources while facing declining state appropriations and was able to meet all financial obligations while creating a surplus and without placing an extra burden on the students. We therefore disagree with the Auditor's comments and assessments. In response to the issue of fund balances, it should be noted that the university, over the last four years, has increased fund balances by $200,000. This increase was accomplished despite the state withholding of funds and state cuts to core funding totaling $3.2 million during the current and the last fiscal year. This surplus was realized without laying off employees, and without adversely affecting student outcomes or the student experience. No degree programs were discontinued, and no buildings were closed as a result of state funding reductions. The university's surplus has been accomplished through a 34% increase in enrollment, monitoring of spending and prudent purchase practices. Based on the recommendations of the State Auditor, the institution will set aspirational goals/benchmarks regarding fund balances going forward and continue to ensure sufficient resources for the *university's operations are available by continuing to monitor spending, and evaluating controls and management practices. In addition, the disbursement/procurement policy will be reviewed and enhanced. The university's responses to the Auditor's references made here to MAR findings 2, 3, 4, 5, 6, 8 and 10 are set forth below.*

1.2 To provide further context, it should be noted the Board approves the university budgets that are related to unrestricted funds and auxiliary enterprises. This accounts for 80% of the institution's total expenses. The remaining expenditures are from restricted, reimbursable state and federal grants. Since these programs are paid through reimbursement, the expenses equal the revenue and no surplus or deficit results from these restricted funds. Annual budgets for each restricted account are completed annually and submitted to the granting agency for approval. A copy of that budget is also provided to the Business Office for post-award monitoring and management. Federal expenditures are subject to an annual audit that is conducted by an external auditor. Any findings from these audits are shared with the Board annually in an open session meeting. Although the university's operations are reviewed annually by its outside audit firm, RubinBrown LLP, Certified Public Accountants, and no issues have been raised regarding how budgets are prepared, as a result of the State Auditor's recommendations, the institution will include all activities in the budget documents presented to the Board of Regents at all future meetings, which occur every two months, and annually thereafter.

2. Student Account Balances

The university is not following established procedures for the monitoring, follow up, and collection of tuition and fees on student accounts. In addition, the university has not established policies and procedures for emergency loans made to students.

2.1 Student accounts

Significant improvement is needed in the monitoring and collection of student accounts. Balances owed by students over 90 days past due totaled approximately $1,567,000 and $1,304,000 for the fiscal years ending June 30, 2017 and June 30, 2016, respectively.

The university does not enforce its current policies and procedures regarding financial holds on registration and collections. As a result, the university allowed students to register for classes with significant outstanding balances.

University policy states that all fees are to be paid in full at the time of registration, and students with an unpaid balance will not be permitted to register for the following semester with an outstanding balance. Tuition and fees not paid prior to completing registration can be paid by obtaining financial aid, using third party payors, or initiating and executing an approved payment plan with the university. In addition, the university's collection policy requires sending a reminder email if a student account is 60 days past due, sending a collection warning letter if an account is past due 30 days after semester end, and written communication for all collection efforts.

Our test of 30 student accounts noted the following issues.

- Of the 25 students tested with balances due, 16 were allowed to register for the next semester. Balances for these 16 students ranged from $25 to $14,951 with 9 having balances of more than $1,000. University personnel indicated the school has an informal policy to allow students residing on-campus to register if their balance due is $1,000 or less and students residing off-campus to register if their balance due is $500 or less.

- Five students with outstanding balances did not have payment plans or other documented financial aid sufficient to pay the outstanding balance as required.

- The Bursar could only provide delinquency letters sent to 5 of the 10 students with past due balances on payment plans. Also, no supervisory review is done of the follow-up work performed on the payment plans.

- The university did not maintain records or documentation of the email messages sent to 20 students indicating payment on their account balance was 60 days past due. A required collection letter for 19 of these students, whose outstanding balances totaled almost $156,000, was not mailed until 12 to 25 months after the students' last semester attended.

- The university did not send 2 of the student accounts to the third party collection agency as records indicated had occurred. The university sent a collection letter to one of the students.

Policies and procedures for student registration and collection of amounts due should be written and those procedures should be consistently followed. In addition, proper and timely monitoring of balances due is necessary to help ensure unpaid amounts are collected and proper follow-up action is taken for nonpayment, including sending accounts to collection agencies or using alternative collection efforts.

2.2 Student emergency loans

The university does not have written policies and procedures for the issuance, monitoring, and collection of emergency loans made to students. The university also does not advertise or otherwise publicize the service to allow all students the opportunity to use it. The university provides interest free, short-term emergency loans to students seeking financial assistance to pay personal bills or other purchases. Restricted donations are used for the loans, which are approved by the Director of Financial Aid, Dean of Enrollment Management (EM), and the Chief Financial Officer (CFO). Loans range from $50 to $3,000. Written procedures could not be provided outlining eligibility guidelines, allowable needs and uses, or the process for approving these loans. The university made 180 emergency loans totaling approximately $117,000 between January 2016 and March 2018.

Also, the outstanding emergency loan balances were not always monitored or paid off with excess financial aid when allowable. The university procedure is to deduct the amount due from additional financial aid due to the student prior to disbursing financial aid to the student. A review of emergency loans issued, identified a remaining balance due for four loans, totaling $2,164, as of March 31, 2018. Two of the 4 loans have been outstanding for more than a year. According to accounting and financial aid personnel, the university has not established any procedures (such as sending statements to the students, placing holds on student accounts, or attempting other collection efforts) to collect past due accounts. Additionally, the university accounting system does not allow students to see the emergency loans as part of the their student account or to monitor the amount due. Ten students received additional emergency loans totaling $6,117 while already having outstanding emergency loans totaling $6,206. The students repaid all loans by March 2018.

A written policy is necessary to establish and document the emergency loan process including the eligibility guidelines, allowable amounts, approval, and repayment terms of the loan and to ensure all students are aware of the program. In addition, follow-up procedures are necessary to safeguard against possible loss or misuse of funds going undetected.

Recommendations

The Board of Regents:

2.1 Ensure policies and procedures to restrict registration, monitor, and collect student account balances are written and followed timely and consistently.

2.2 Develop formal written policies and procedures for the issuance, monitoring, and collection of student emergency loans.

Auditee's Response

2.1 We agree with the Auditor's comments and are continuing to address these concerns as we have done prior to receiving the Auditor's recommendation. Recognizing the need for improvement in monitoring student payment plans, the university adopted a new electronic tracking system, Cashnet, for payment plans in July of 2018. The university was in the testing stage of this new system prior to receiving the State Auditor's verbal recommendations in June 2018. The new Cashnet system was signed on August 28, 2017 and *fully implemented in July 2018. The university's Student Account Office will also review and update its policy and procedures regarding the monitoring and collection of student account balances. Further, the Student Account Office and Accounting Specialist will follow up monthly to ensure adherence to these policies and procedures. The university's Student Account Office will continue to monitor the collection of outstanding student balances. This is a symptom of low staffing due to reduced appropriations.*

2.2 *We disagree with the Auditor's comments and assessments that the university does not maintain policies and procedures for the issuance, monitoring, and collecting of these emergency student loans, although we acknowledge they were not maintained in a formal written format. The Emergency Refund Loan (ERL) fund has been in existence since the early to mid-1980s. A private donor provided the funds to the university for the specific purpose of assisting students with unforeseen financial difficulties. The program continues to be funded through the original donation 30 years ago and nearly all of the funds have been recovered.*

A formal written policy and procedure for the issuance, monitoring, and collection of student emergency loans has been developed by the Director of Financial Assistance and will become effective during the Spring 2019 semester. The Dean of EM will be responsible for monitoring compliance with the written policy. Going forward, the university will advertise the ERL information to all students.

The ERL policy implemented for Spring 2019 is as follows:

The Office of Financial Assistance provides zero interest loans to students that are experiencing financial hardships and expecting a refund from their federal student aid. Loans are usually granted in amounts up to $800 for undergraduate students. Loans may be greater for extenuating circumstances (if approved by the Dean of EM and the Vice President (VP) of Business and Finance).

ERLs are available to students who are registered for the current semester and who demonstrate extreme and immediate financial need and will have a refund of at least 2 times the amount of their request. Students must (1) submit a written request for an ERL, (2) provide statements, bills, etc… displaying need or hardship, and (3) receive approval from Director of Financial Aid, Dean of EM, and VP of Business and Finance.

3. Payroll and Personnel Procedures

We noted numerous problems with the university's payroll and personnel procedures. The university had payroll expenditures of approximately $17.5 million and $15.4 million for the years ended June 30, 2017, and June 30, 2016.

3.1 Missing and incomplete personnel records

The university paid temporary employees who did not have payroll or personnel files to support their employment. In addition, employment records for other employees were not complete. We reviewed the employment records for 85 employees to ensure documentation was included to substantiate proper hiring, position, pay rate, and completion of all required forms. We initially reviewed personnel, payroll, and I-9 (Employment Eligibility Verification) form files for 25 university employees. Personnel files are to include applications and transcripts/certifications. Payroll files are to contain pay rates, federal and state W-4 forms, and background checks. I-9 forms are filed separately for each employee. Our review included looking for completed job applications, W-4 and I-9 forms, transcripts/certifications, and documentation of positions and pay rates. After we noted records missing for one employee paid by a manual payroll check, we expanded our work to include a review of employment records for 60 additional employees paid by at least one manual payroll check for years ended June 30, 2017, and June 30, 2016. This additional test included reviewing for completed job applications, I-9 forms, transcripts, and background checks.

Missing payroll records

Our review of the records for the 85 employees noted employment records could not be located for 3 employees (4 percent), limited information was available for a fourth employee reviewed, and one employee's files could not be located until months after originally requested. As a result, there is less assurance salary payments were appropriate for these employees.

University personnel indicated one of these employees was a summer intern and another was a graduate assistant. For one of the employees, the university provided a grant report listing him as a researcher as the only available documentation of employment. No email messages or other documentation were provided for the remaining 2 employees. The file for a fourth employee only included a payroll employment authorization form indicating this person was a temporary part-time instructor.

Incomplete records

Our review of various employment records for the 85 employees noted files were often missing one or more required documents. We identified the following problems.

- The approved pay rate for 3 of 25 employees was missing from their personnel files and another employee received a manual payroll check on the same date as an automated check with no supporting documentation. The CFO indicated the additional check was issued to correct an earlier error, but he could not provide documentation to substantiate the circumstances.

- Federal and state W-4 forms were missing for 15 of the 25 employees and another employee's file was missing the state W-4 form. (University personnel indicated the forms may be in storage, but could not provide them.)

- I-9 forms were not on file for four employees and the forms were incomplete for another 12 of the 85 employees tested.

- Employment applications were missing for 3 of the 85 employees. One employee has been employed for more than 30 years and university officials indicated the application may be missing due to the age of the records.

- One employee's personnel file included another employee's information.

Conclusion

Without sufficient employee payroll and personnel records, the university has less assurance payments made to employees are appropriate. Complete employment records should be maintained for all employees to provide documentation of personnel actions. In addition, employment records should at a minimum contain documentation for hiring the employee, the employee's authorized pay rate, and any subsequent changes in pay rate. The Internal Revenue Service (IRS) requires employers to ensure a W-4 form is completed by each employee to support payroll tax withholdings. The Immigration Reform and Control Act of 1986 indicates an individual may not begin employment unless an I-9 form is completed.

3.2 Timesheets

Timesheets required for hourly employees were not prepared or maintained for 6 of the applicable 12 employee records tested. The missing timesheets included 5 student workers and 1 part-time employee. For the part-time employee, only an email noting hours per day was available. For 2 of the student workers, the university provided a listing of various student workers and total hours worked. This listing did not indicate specific dates or times worked and was not signed by a supervisor indicating the hours were approved. No information was provided for the other student workers.

Paying employees without proper documentation of time worked may lead to errors and the potential for employees to be over/under paid. In addition, the university should establish procedures to ensure required timesheets are approved and fully document dates and times worked.

3.3 Background checks

The university only performs background checks that identify Missouri criminal records despite actively recruiting and hiring employees from other states. As a result, background checks performed may not be sufficient to safeguard the university. The proximity of the university to the Illinois border and the likelihood of employees from at least Illinois applying for employment indicates nationwide or other state background checks would be appropriate. In addition, our audit work noted the university has hired several employees from Florida and Georgia, further indicating the need to perform out-of-state background checks. University personnel could not explain why background checks are limited to Missouri. Also during our review we noted 3 of 60 employees tested had no documentation of a background check being performed.

Performing sufficient background checks on new employees reduces exposure to potential liabilities and helps safeguard university personnel, students, and assets.

Recommendations

The Board of Regents:

3.1 Ensure employment records are maintained and complete for all employees.

3.2 Ensure university employees complete required timesheets and timesheets are reviewed and approved by supervisors prior to processing payroll.

3.3 Ensure background checks are sufficient to safeguard university personnel, students, and assets.

Auditee's Response

3.1 The university maintains payroll and personnel files for all university employees and we therefore disagree with the Auditor's comments and assessments. This issue was limited to visiting students/interns who were working on their Master's degree. They were temporary employees paid a nominal stipend amount, typically $2,000 or less. All regular full-time and part-time employee files were intact. Further, the Employment Eligibility Verification Forms GS031 under Missouri Revised Statutes Chapter 109 (Public and Business Records) Section 255 states: "I-9 Forms - This form is not part of the Employee Personnel Record and should be filed separately." The university's Human Resources practices are in alignment with the state's statutes; we maintain our I-9s separate from payroll and personnel files. New procedures have been implemented to ensure W-4 forms for temporary part-time student workers are collected and maintained separately in accordance with the Missouri statutes.

3.2 We disagree with the Auditor's comments and assessments. We have located all timesheets for all employees referenced in the finding. In 2016, the university transitioned to an electronic timekeeping system. All full- and part-time employee's timesheets are electronic and are *approved by the employee's supervisor before being processed. A new employee's time is tracked with the old punch card system before being inputted into the payroll system. Student workers are paid hourly and time is summarized on a worksheet. The individual student worker's timesheets are reviewed and signed by the supervisors. All timesheets were signed and submitted as additional evidence to the auditors.*

3.3 We do not fully agree with the Auditor's comments and assessments. The university began its research for a Human Resources Information System in 2016 to enhance our capacity for background checks and other human resources requirements. Vendors were evaluated in late 2016 through mid-2017 and Automated Data Processing (ADP) was selected in 2017 to provide the university with a new Human Resources Information System that contained the capacity for nationwide background checks.

During the years included in this audit, the university was following State of Missouri guidelines for background checks, which only requires that employers perform a background check for the state of Missouri. The university's implementation and transition to ADP began in April 2018 and as of December 5th, 2018, the university is conducting nationwide background checks for criminal, sexual offender, education, work history, and credit history based on the position for which an applicant applies. The background check is completed through the ADP system and the results of the check are sent to the Director of Human Resources.

Auditor's Comment

3.1 Complete employment records are necessary for all employees, including temporary employees, to ensure payroll and personnel actions are appropriate and documented. Contrary to the university's response, the audit noted incomplete employment records from full-time as well as temporary employees. Also, the temporary nature of the summer and graduate assistant employment increases the risk that employment transactions may be entered incorrectly or fraudulently and not detected, making it critical that these employees' files also be maintained and complete. No matter the filing methods, all required forms should be on file.

3.2 While the auditee's response indicates timesheets were provided, the information provided did not constitute a timesheet, did not include dates and times worked, and did not include any indication of approval.

4. Disbursements

Controls and procedures over disbursements need improvement.

4.1 Credit card purchases

The university does not ensure employees follow credit card and travel policies and procedures and allows employees to continue making significant credit card purchases without supporting documentation.

University policy and credit cardholder agreements limit credit card purchases to specific uses and require employees on travel status submit supporting documentation within 10 days and all other employees submit supporting documentation within 30 days. The cardholder agreement states failure to submit required documentation can result in the amount of unsupported charges being withheld from the employee's paycheck. University officials indicated additional controls were put in place to address issues including limiting card purchases to travel only. University officials indicated that if they allowed non-travel purchases by removing some of the card restrictions, the restrictions were added back the following day. Also, they indicated employees who continually did not submit documentation would have their credit limit reduced to $1.

Despite existing and additional controls, some employees did not submit required supporting documentation for credit card purchases and the university did not always withhold amounts from their paycheck or otherwise limit use of the university credit card. If an employee does not submit supporting documentation, the university pays the credit card bills without the supporting documentation, and tracks the amount of unsupported charges as a balance due from the employee. As a result, the university is paying charges without verification that purchases are appropriate uses of university funds. We noted the following concerns:

- Ten employees left employment without resolving disapproved or unsupported credit card charges totaling almost $75,000, including one employee who left with undocumented credit card charges totaling about $65,000. Due to the lack of documentation, the university could not ensure the charges were reasonable or appropriate and did not pursue further collection after the employee left the university. The university recategorized the $75,000 in unresolved charges for the year ended June 30, 2017 as a bad debt expense at the recommendation of its external auditor.

- As of April 2018, the balance of unsupported credit card charges by current university employees from 2017 and prior years totaled approximately $66,500. We contacted 20 current employees and requested they provide the supporting documentation. In May 2018, employees provided documentation to support $22,130 of the charges.

- All employees with unsupported charges dating prior to June 30, 2017 were able to use their credit card in calendar year 2018, indicating their credit limit was not reduced as required by newly implemented procedures.

Credit card compliance

Several credit card transactions were not compliant with existing policies. We reviewed 40 credit card transactions for the 2 years ending June 30, 2017 and noted purchases at local food and other non-travel related vendors. We reviewed the remaining expenditure data and noted credit card purchases totaling about $4,700 for fiscal year 2016 and $1,800 for fiscal year 2017 at the food vendors. We also identified non-travel related expenditures totaling about $11,600 for fiscal year 2016 and $26,500 for fiscal year 2017. These other charges included gift cards, local parking, flowers, clothing, fabric, and office supplies.

The university credit card policy does not allow for the purchase of hospitality or entertainment, gift cards, personal items, or purchases that by-pass existing procurement and payment procedures. Also, a review of calendar year 2018 credit card purchases noted usage at restaurants, online retailers, and department stores indicating additional usage restrictions may not have been put on credit cards in accordance with newly implemented procedures.

Conclusion

Adequate controls should be in place to properly monitor credit card transactions to ensure accuracy, necessity, reasonableness, and compliance with university policies. Controls, including procedures to address inappropriate usage, are not effective if not consistently and routinely utilized.

4.2 Disbursements needing further review

Some university disbursements should be further evaluated to ensure they provide a clear benefit to the university. We reviewed university disbursements for the 2 fiscal years ended June 30, 2017 and identified the following purchases.

- $15,327 for membership fees and benefits to 2 private clubs for the University President

- $1,250 for a corporate sponsorship of a golf tournament

- $1,537 for various purchases of cards and flowers

Public funds should be spent only on items necessary and beneficial to the university and that enhance the education process. Taxpayers have placed a fiduciary trust in their public officials to spend university resources in a prudent and necessary manner.

Recommendations

The Board of Regents:

4.1 Ensure all credit card transactions comply with university policy including enforcing existing procedures to limit inappropriate use and pursue collection for unsupported charges.

4.2 Ensure costs incurred by the university are necessary and a prudent use of taxpayer monies and enhance and benefit the education of the students.

Auditee's Response

4.1 We agree with the Auditor's comments and began to enact procedures to address these concerns prior to the Auditor's findings. All credit card transactions are monitored daily. Credit cards are canceled if the employee is not in compliance with policies. Further, credit card purchases are limited by not only the total credit available, but by merchant code, which limits where the card can be used and for how much at specific vendors. Payroll checks are garnished for noncompliance with expenditure policy. Final payroll checks are not distributed until all credit card transactions are fully documented. While the university has determined that identified expenditures were appropriate, the university has continued to seek further documentation.

4.2 We disagree with the Auditor's comments and assessments. The Director of Purchasing and the CFO monitor all of the institution's expenses to ensure that they are necessary, prudent and to the benefit of our students. The membership to two private clubs referenced within the audit report includes the Missouri Athletic Club and the St. Louis Club. Both are used to hold alumni events, solicit donors, and to host university events and programs. At one of those events held at the St. Louis Club, the university received our largest alumni donation of $150,000. The use of the off campus clubs has been a great return on our investment. The golf tournament referenced was a fundraising event for a Historically Black College and University scholarship fund and the cards and flowers referenced were sent to the families of students who passed away, and to faculty or staff who experienced a death in their immediate family.

5. Early Childhood Development Center

The university subsidizes the William L. Clay Early Childhood Development/Parenting Education Center (ECDC) due to the program's annual operating losses. In addition, the ECDC does not sufficiently monitor outstanding balances due, enforce current policies for payment of outstanding balances, or have an updated agreement with another university for use of its facilities leading to further potential losses.

The ECDC is a state-licensed on-campus facility that serves the university and community by providing child care and learning services for children of students, university faculty and staff, and members of the community. The ECDC offers programs for infants, toddlers, and pre-kindergarten (ages 3-5 years old). Child care fees vary based on the age group and whether the children are receiving state Child Care and Development Fund subsidies. Harris-Stowe faculty, staff, and students receive a 10 percent discount. This discount is also extended to faculty and staff of other local universities.

In July 2016, the center increased its capacity from 120 to 140 children per week and attendance averaged approximately 115 children per week for the year ended June 30, 2017. According to university officials, of the children enrolled, less than half were children or grandchildren of Harris-Stowe or other local university employees or current or past students. As of June 30, 2017, the ECDC had 12 full-time employees and 13 part-time employees.

5.1 Subsidization

The university routinely subsidizes the operating costs of the ECDC. Child care fees were not increased between fiscal years 2015 and 2017, current revenue levels include some temporary and non-child care revenues, and operating costs are increasing, indicating the potential for further losses. While the ECDC increased fees by 3 percent for fiscal year 2018, staff did not perform a cost study or analysis to determine the sufficiency of this increase or other fees charged to ensure financial stability. Financial statements prepared by the university CFO indicate the ECDC incurred cumulative losses of $98,000 for the 4 years ended June 30, 2017. During that period the ECDC generated revenues of $4.3 million and incurred expenses of $4.4 million. In addition, the CFO indicated the ECDC had a loss of approximately $90,000 for the year ended June 30, 2018.

ECDC revenues for the 4 years ended June 30, 2017 included approximately $191,000 in non-child care revenues ($128,000 in limited-time grants, $46,000 in rental income, and $17,000 in donations) that may not be sustainable. In addition, in 2017, the ECDC began a summer daycare program that generated approximately $12,000 in new revenues; however, operating costs associated with the summer program were not tracked to allow a comparison of revenues to expenses to determine the program's viability.

Operating the ECDC at a deficit requires other university funds to subsidize its operations and activities while the university faces additional financial pressures (see MAR finding number 1). A cost-benefit analysis evaluating ways to make the ECDC more self-sufficient and cost effective is necessary to ensure university and program resources are maximized while meeting the needs of the university and community. The analysis should include a review of the adequacy of fees currently charged, discounts and programs offered, and ECDC operating costs.

5.2 Unpaid balances

The ECDC does not restrict attendance for families with unpaid fee balances, as required by policy. In addition, the ECDC does not proactively follow up on unpaid balances and does not have written procedures for collections, payment plans, or write-off of past due amounts. Unpaid balances due to ECDC totaled approximately $149,400 as of June 30, 2016 and increased to $224,800 as of June 30, 2017.

The ECDC offers 3 payment timeframe options including monthly, semi-monthly, and weekly. Effective January 1, 2016, ECDC policy states "If fees are not paid by the end of the month or the end of the week (depending on the payment option selected), your child will not be accepted into the program until all fees are paid. If there are outstanding fees, child-care services may be terminated."

The ECDC does not have written policies or procedures to monitor or collect outstanding past due accounts. In addition, ECDC and university staff indicated to resolve delinquent accounts, they will set up payment plans or turn over outstanding balances to the Missouri Department of Revenue for tax refund interception or to collection agencies. These procedures are not reflected in policy. We reviewed 50 account balances for both active (children currently attending) and inactive (children no longer attending) accounts as of May 2018, and noted the following:

- For 28 of the 50 accounts reviewed, children were allowed to attend while their parents or guardians had an outstanding balance due, in violation of the ECDC payment policy. In addition, as of May 2018, 23 of the 28 accounts were inactive with an outstanding balance due totaling approximately $107,400. The other 5 accounts were active and had an outstanding balance of approximately $12,600. Balances ranged from $2,020 to $3,340.

- We noted 12 of the 28 accounts had no documentation of a past due notice sent and 25 of the 28 did not have a payment plan. In addition, none of the 23 inactive accounts had been sent to a collection agency or received any additional collection efforts.

Incomplete application data contributed to the lack of follow up on old outstanding accounts. Our review noted applications completed by parents registering children into the ECDC were not always complete. As a result, the center did not have sufficient information necessary to follow up on past due accounts or attempt other collection efforts. We noted 16 of 17 delinquent accounts from fiscal year 2014, totaling about $27,130, were not turned over to a collection agency or the Missouri Department of Revenue due to missing or incorrect information recorded on the application. These accounts were written off as uncollectible in June 2017.

Written procedures should be established and followed to ensure the consistency and propriety of the collection and write-off of balances due. In addition, proper and timely monitoring of unpaid accounts is necessary to help ensure unpaid amounts are collected and proper follow-up action is taken for non-payment. Also, complete and accurate information is necessary to ensure information is available for proper account follow up and prevent potential loss of revenues.

5.3 Memorandum of understanding

The university has not updated the fees charged through a memorandum of understanding (MOU) with the Washington University School of Medicine for use of the ECDC facilities for parent education classes since 2013. The original MOU included a $200 classroom fee and an additional hourly campus security fee. The MOU estimated the total costs would be $264 per session. The university continues to charge Washington University this $264 per session rate without consideration of current security or overhead costs. University officials indicated a discussion of increasing usage fees was proposed for the 2016-2017 MOU but an agreement could not be reached. Instead, the number of classes was limited. The ECDC received $23,245 in fiscal year 2017 and $22,865 in fiscal year 2016 for use of the facility.

Clear, detailed, and updated written agreements, are necessary to ensure that the university is receiving adequate compensation for facility usage and campus security provided.

Recommendations

The Board of Regents:

5.1 Review operations of the Early Childhood Development Center to determine how the program can be operated as a self-sustaining entity.

5.2 Ensure procedures to monitor and collect unpaid accounts are established, implemented, and performed consistently. In addition, the Board ensure applications are accurate and complete to allow for appropriate follow up.

5.3 Periodically revise fees charged to ensure the university receives adequate compensation for services provided.

Auditee's Response

5.1 *We agree with the Auditor's comments and have initiated steps to address them, many were in process prior to the initiation of the audit. The Early Childhood Development Center has transitioned to a new leadership structure that includes a new Dean for the College of Education as well as a new Assistant Director of the Early Childhood Development Center. The leadership team that includes the Director of the Early Childhood Development Center has* *developed an innovative strategic plan (2018-2020) to ensure that it becomes a self-sustaining entity.*

The Director of the Clay Center is responsible for all administrative and operational activities associated with the Center. In addition, the Director serves as the leader for the planning, implementing, and monitoring of all activities related to curriculum and instruction and compliance with licensing regulations and accreditation. The Director monitors the Center's finances and in conjunction with the Accounting Department ensures that accounts are reconciled quarterly.

The Assistant Director is charged with assisting the Center Director in ensuring that the center is operating in accordance with university, National Association for the Education of Young Children, and state licensing standards. The Assistant Director assists with developing fundraisers to support the Center's programs and works to implement strategic marketing for the Center. The Assistant Director also manages the Child and Adult Care Food Program, maintains and updates records to meet deadlines, and assists with keeping projects on schedule.

The execution of the plan is the responsibility of the Center's leadership team. Based on various aspects of the plan, the Director and Assistant Director often work cooperatively to achieve stated goals. Weekly accountability meetings are held with the Dean of the College of Education to ensure that the plan is being implemented and to provide guidance as needed.

5.2 *We agree with the Auditor's comments and have initiated steps to address them, many were in process prior to the completion of the audit. A review and update to the financial policies of the Early Childhood Development Center was implemented on July 1, 2018. These updates include removal of some discounts, streamlined payment due date to the 1st of each month, implementation of a new payment processing and tracking system (Procare), working with a collection agency to collect outstanding unpaid accounts, and regular reporting and analysis of the status of enrollment and center finances.*

5.3 *We agree with the Auditor's comments and have initiated steps to address them, many were in process prior to the initiation of the audit. The fee structure is reviewed annually by the leadership team of the Clay Center. This involves conversations with the Accounting Department and analysis of the Center's annual operating budget. Any changes to the fee structure are then determined near the end of* *the fiscal year (May) in order to be implemented in the upcoming academic year. This occurred in May 2018, with new policies and fee structure changes implemented in July 2018. The process for changes in the fee structure or any changes in the Clay Center, include a written proposal submitted to the Dean for consideration. The proposal must provide evidence of the need for changes and how the changes will impact the Clay Center. The Dean then takes the proposal under consideration, typically after a conversation with the members of the leadership team and makes a decision to approve, deny or change the proposal request. At times, proposals may require additional input from university administration before a decision is made.*

In addition, the Clay Center is reviewing other opportunities to increase the revenue for the center, including additional grant opportunities, extended hours, and providing childcare services for our students and the greater community when advantageous.

6. Tuition Analysis

University officials have not conducted a recent formal analysis of the impact on enrollment due to potential tuition rate changes or charging students for all credit hours.

University officials stated in an effort to attract and retain students, and provide an affordable university education, the university did not increase tuition rates for the 4 year period ended June 30, 2017. The university raised tuition by 2.5 percent for fiscal year 2018. In addition, the university bands tuition rates for credit hours 12 to 16 and as a result does not bill students for those credit hours. According to university officials, this policy allows students to take more credit hours without paying more tuition, increasing their ability to graduate on time.

While university officials stated the tuition rates and structure were set to retain students, the university has not conducted a recent formal analysis to determine what the impact on enrollment was or would be if changes occurred. University officials produce strategic plans and present budget and tuition information to the Board periodically. Also in the past, when facing state budget withholdings, university officials conducted town hall meetings to address concerns. However, these analyses do not include a study of the relationship of tuition changes to enrollment that would further help the Board make informed tuition decisions.

As noted throughout the report, the university incurred significant annual decreases in fiscal years 2017 and 2018 state core funding resulting in budgetary restrictions while also making unsupported or unnecessary disbursements, subsidizing non-higher education operations, not safeguarding university assets, and not ensuring outstanding amounts due were collected. Given the university's reliance on state appropriations for revenue, the university may find it necessary to consider tuition rate changes like those in fiscal year 2018, even after addressing the management issues included in this report. Recent legislation allows the university to increase tuition to offset prior year state operating support[1] reductions. A formal analysis of the impact of changes in tuition rates or structure on enrollment would allow the university to make more informed decisions on the impact on university revenues.

The following table indicates university staff estimates of potential foregone revenues due to not increasing tuition rates and having banded credit hours.

	Fiscal Year Ended June 30,				
Estimated Reduced Revenue	2014	2015	2016	2017	Total
Unchanged Tuition Rate	$ 133,120	272,657	447,886	694,475	1,548,138
Banded Credit Hours	685,011	723,381	881,502	1,133,615	3,423,509
Total	$ 818,131	996,038	1,329,388	1,828,090	4,971,647

Source: Estimates prepared by the University's CFO based on an allowable tuition increase of 2.1 percent (the amount allowed for fiscal year 2017) and the same number of full-time students each year. Estimates of banded credit hour revenue based on the actual number of unbilled credit hours and the effective tuition rate for each year.

Tuition rate increases are capped by state law. Through fiscal year 2018, the limit on the potential increase was the higher of the percentage change of the federal consumer price index (CPI) multiplied by either the university's average tuition or the average tuition of all state universities and colleges. Effective August 2018, Section 173.1003, RSMo, was amended to permit universities to increase tuition. For universities with a lower than average tuition, this amendment allows them an increase of no more than the product of the percent change in CPI times the average tuition plus a percentage of no more than 5 percent that would produce revenue no greater than the amount the state support was reduced in the prior year. The university's tuition is below the state average. University officials stated several additional factors are used when establishing tuition rates including, but not limited to, reviewing enrollment and projected revenues, the level of planned employee raises, and new initiatives or planned construction projects.

Preparing and maintaining a formal cost study would allow the university to determine the impact of tuition decisions on university operations, including enrollment, and make better informed tuition rate decisions accordingly. Cost

[1] State operating support is defined as the funding actually disbursed from state operating appropriations and does not include appropriations or disbursement for special initiatives or specific program additions or expansions.

studies should include an evaluation of the current and future financial position of the university.

Recommendation

The Board of Regents ensure a formal cost study of the impact of changes in tuition rates and credit hours billed is performed to support future tuition plans. In addition, the university should periodically review the tuition plan to ensure it adequately reflects current conditions affecting the university.

Auditee's Response

We disagree with the Auditor's comments and assessments. The university's mission is to serve first generation college students from lower socio-economic backgrounds. An overwhelming 73 percent of our students are first generation college students. A vast majority, 76 percent, receive federal financial assistance in the form of a Pell grant. Unfortunately, the state has continued to cut our appropriations, but we find it difficult to place the financial burden solely on our students, who are mainly from low income families. The language used in this finding does not consider the special needs of our students.

The university has studied the outcomes of raising tuition and lifting the banded tuition caps currently in place. Each year, the university conducts a robust tuition analysis as a part of the university wide budget committee composed of representatives of all members of the university community. Each year, the CFO presents to the Board of Regents various scenarios that include raising tuition and fees and has identified other avenues to generate revenue.

Over the years included in the audit, the university has identified that raising tuition would adversely affect our students, 76 percent of whom are Pell eligible and for whom the majority have estimated family contributions of $0. Increasing tuition for the university's students would mean they would have to borrow more money in order to obtain a degree. This would adversely affect the retention and graduation rate of our students and potentially negatively influence our default rate. The university has to be mindful of these factors as it considers raising tuition.

The banded tuition for credit hours over 12 and less than 16 is purposeful. In summer 2016, the institution became involved in Complete College America's Fifteen to Finish program. The program encourages students to enroll in 15 credit hours each semester in order to remain on track to graduate in four years. Lifting the band will negatively affect students focused on this goal. Further, there is no guarantee that by lifting the band that the university will see any increase in revenue since students might elect to enroll in just 12 hours to maintain full-time status and to ensure that their college education remains affordable and within their means. Per the Auditor's recommendations, the university will continue to undertake a formal cost *study of the impact of changes in tuition hours and credit hours billed as it considers increases to tuition as needed.*

Auditor's Comment

We acknowledge the university's mission and the unique needs of its students as well as the efforts to analyze tuition. However, as noted in the finding, the efforts do not constitute a formal tuition analysis. The formalization of the analysis is necessary to ensure the university is able to demonstrate the reason for tuition decisions and that those decisions support the university's mission and meet the needs of its students.

7. Sunshine Law

The university did not always comply with the Sunshine Law. We noted the following concerns during our review of university records:

- The Board discussed several topics in closed meetings that are not allowable by state law. Our review noted this problem occurred in 8 of the 15 closed meetings held from July 2015 through March 2018. For example, closed meetings minutes indicated unallowable topics discussed included the creation of a Foundation Board, building up the university's reserves, funeral services, and marketing of the university. The Board did not maintain sufficient documentation to demonstrate how these discussions would be allowable under the law.

- The Board generally uses the same statement for each meeting notice/agenda to indicate the potential for a closed meeting, instead of citing the specific section of the law as the reason for a closed meeting. The agendas also refer to closing the meeting under Section 610.25, RSMo, which does not exist. In addition, the vote of each member approving to enter into a closed meeting is not documented as required.

- The public record request log documenting Sunshine Law requests is not complete. The log does not include the date the request was processed or if any fees were charged.

Section 610.022, RSMo, mandates the discussion topics and actions in closed meetings must be limited to only those specifically allowed by law, requires the specific reasons for closing a meeting by citation to a specific section of the Sunshine Law be announced publicly at an open meeting, and requires documentation of the roll call votes to enter closed meetings in public minutes. To ensure compliance with Sunshine Law request requirements, the university should document adequate information in its request log to demonstrate requests are completed timely and sufficiently.

Recommendations

The Board of Regents ensure items discussed in closed meetings are allowable topics under state law and adequately documented as such. In addition, the Board should note the roll call votes to enter into closed meetings and ensure the public request log is maintained and updated timely with all necessary information to ensure compliance with the Sunshine Law.

Auditee's Response

We do not fully agree with the Auditor's comments. Going forward only allowable topics will be discussed in closed session. The Board makes every attempt to fully comply with the Missouri Sunshine Law. However, there might have been limited instances where comments were made by Board members regarding matters that were outside the scope of the original, proper reason for closing the session. In response to the State Auditor's recommendations, the university will work diligently to fully comply with all aspects of the Missouri Sunshine Law, and will designate one member of the Board to monitor compliance. Going forward, the proper statutes will be cited for closed session and proper documentation kept of roll call votes. The Sunshine Law request log has been updated to reflect the date the request was processed and no fees were ever charged.

8. University Foundation

The university subsidizes certain operating expenses of the University Foundation. In addition, the university has no formal contract or agreement with the Foundation and the University President is overseeing the Foundation because a Foundation Board of Directors has not been established.

The Harris-Stowe State University Foundation, established in 1993, is a not-for-profit 501(c)(3) tax exempt public benefit corporation and is considered a blended component unit within the university's financial statements. Its mission is to help ensure the academic development, excellence, and success of students through financial and other forms of support, thereby enhancing the mission of Harris-Stowe State University. An independent Board of Directors has not been appointed to serve the Foundation.

8.1 Subsidy and written agreement

The university subsidizes a portion of the operating costs of the Foundation and has not entered into a formal agreement with the Foundation.

The university does not receive reimbursement from the Foundation for two university paid employees performing work as the Foundation's Executive Director and an assistant or the time spent by the University President on Foundation business. The Foundation employs no other staff and has no physical office space. University officials indicated these individuals do not track the time worked on Foundation business versus university activities. Therefore, it is unclear exactly how much of their time was related to Foundation activities and should have been reimbursed by the Foundation. The Executive Director of the Foundation estimated she and the assistant spend 50 hours per month working solely on Foundation business. We divided the time worked evenly between both the employees and estimated at least $20,000 of their combined salaries should be reimbursed to the university annually. Also, the Foundation does not reimburse the university for any use of supplies or equipment.

The university has not entered into a written agreement with the Foundation to address the financial support provided, or a requirement to reimburse the university for the employee salaries and other expenses paid on behalf of the Foundation. A formal agreement that clearly indicates the benefit to the university for this arrangement is necessary to ensure the university and Foundation are aware of their duties and responsibilities and to prevent misunderstandings.

8.2 Foundation Board

The Foundation has no Board of Directors and as a result, the University President is overseeing the Foundation. The university's Board of Regents acted as the Foundation's Board until July 2015, when the University President and Executive Director of the Foundation assumed control of the Foundation's activities. The minutes of a closed session meeting held on July 1, 2015, indicate the University President informed the Board of Regents he was working on creating a Board of Directors for the Foundation. However, as of June 2018, a Board has not been established.

A Board of Directors is necessary to ensure Foundation operations receive proper oversight, are transparent, and distinct from university operations.

Recommendations

The Board of Regents:

8.1 Discontinue the practice of subsidizing operations and activities of the Foundation or enter into a written agreement with the Foundation that documents the duties and responsibilities of both parties.

8.2 Appoint a Board of Directors to oversee Foundation activities.

Auditee's Response

8.1 We agree with the Auditor's comments and have initiated steps to address them, many of which were in process prior to the initiation of the audit. The Foundation has less than $50,000 in unrestricted funds to reimburse the university for Foundation activities. A plan has been put in place to reinforce the agreement with the university and the reestablishment of the Foundation Board of Directors. Also, the Foundation helps to increase tuition revenue obtained by the university by awarding scholarships to our students.

8.2 We agree with the Auditor's comments and have initiated steps to address them, many of which were in process prior to the initiation of the audit. Appointment of a Foundation Board has been a priority of the university. The Board of Regents has not served in any capacity as it relates to this Foundation. Once in place, the Foundation Board of Directors will direct and monitor the Foundation activities. The

Foundation has set a deadline of June 30, 2019 to have a full Board of Directors appointed and operational.

9. Accounting Controls and Procedures

Significant improvements are needed in the university's cash handling and accounting procedures.

9.1 Depositing timely and intact

Receipts are not deposited timely and intact. Collections are often deposited several days or more after receipt, allowing a significant amount of cash and checks to accumulate. We reviewed deposits made in February 2017 and March 2018. Monies collected were receipted and deposits prepared daily; however, the deposits were held for several days or weeks prior to actual deposit. Collections totaling $34,222 (including $6,952 in cash) receipted in February 2017, were deposited from 3 to 46 days later. Although the timeliness of deposits made in March 2018 improved, our review noted collections totaling $279,224 (including $8,541 in cash and one check for $249,492) were held up to 12 days prior to deposit. In addition, monies were not always deposited intact. The Bursar's office indicated personal checks can be cashed up to $25. To reduce the risk of loss, theft, or misuse of funds all receipts should be deposited timely and intact.

9.2 Receipt slips

Receipt slips are not issued for monies transmitted to the Bursar's office by the Athletic Department and the ECDC.

To establish proper accountability over transmittals and reduce the risk of loss, theft, or misuse of funds, employees should issue receipt slips for monies received from other departments and programs or develop a process to better document transmittals made.

9.3 Voided transactions

Voided system transactions do not require supervisory approval, are not periodically reviewed by an independent person or supervisor, and are not adequately documented. All employees in the Bursar's office can void transactions and there are no supervisory reviews performed of voided transactions to ensure the entries are proper. In addition, voided transactions are not referenced to replacement transaction numbers when applicable. We reviewed 32 voided transactions, totaling approximately $122,000, and found no documentation explaining why the transactions were voided or indicating any supervisory review occurred.

To ensure all voided transactions are valid and to reduce the risk of loss, theft, or misuse of funds, proper documentation should be maintained and someone independent of the receipting and recording function should review and approve these transactions.

9.4 Outstanding checks

The university has not established procedures to routinely follow up on outstanding payroll checks. At June 30, 2017, the payroll bank account had 42 checks totaling $7,414 that had been outstanding for more than a year. As of June 2018, the university has not taken any action to reissue or resolve these checks.

Proper follow-up procedures are necessary to prevent the accumulation of old outstanding checks and ensure monies are appropriately disbursed to the payee or as otherwise allowed by state law. Section 447.532, RSMo, states intangible personal property held for an owner by a state agency or department that remains unclaimed for more than 3 years is deemed abandoned and shall be turned over to the State Treasurer's Unclaimed Property Fund.

Recommendations

The Board of Regents:

9.1 Ensure monies are deposited timely and intact. In addition, the Board should discontinue the practice of cashing personal checks.

9.2 Ensure receipt slips are issued or transmittal records are signed to better document the transmittal of money between departments and establish custody of it.

9.3 Ensure adequate documentation is maintained to support all voided transactions and ensure an independent review and approval of these transactions is performed and documented.

9.4 Routinely investigate outstanding checks. Old outstanding checks should be voided and reissued to payees that can be readily located. If the payee cannot be located the amount should be disbursed in accordance with state law.

Auditee's Response

9.1 We agree with the Auditor's comments and have initiated steps to address them, many of which were in process prior to the initiation of the audit. The university will ensure that monies are deposited daily or within the next working day. In July 2018, the university's Student Account Office adopted a new on-line payment function that manages all check and credit card transactions in a real time environment. The university was in the testing stage of this new system prior to the findings being communicated in June 2018. The university will discontinue the practice of cashing personal checks at the end of the 2018 calendar year.

9.2 We agree with the Auditor's comments and have initiated steps to address them, many of which were in process prior to the initiation of the audit. The Early Childhood Center no longer accepts checks *or cash as payments, therefore no money will be transferred from the ECDC to the Student Account Office. All payments are now processed through Procare. Receipt slips are now issued to the athletic department for concession sales. The new Cashnet system agreement was signed on August 28, 2017 and fully implemented in July 2018.*

9.3 We agree with the Auditor's comments and have initiated steps to address them, many of which were in process prior to the initiation of the audit. All voided transactions are reviewed and approved by an independent party. All approvals will be documented.

9.4 In July 2018, all outstanding checks were voided and reissued. The university was in the process of voiding and reissuing old outstanding checks prior to the State Auditor's findings being communicated in June 2018. All payroll checks will be investigated and other outstanding checks will be reviewed periodically.

10. Capital Assets

The university does not always follow its policies and procedures for capital assets. As a result, assets are more susceptible to theft or misuse. Per the university asset listing, the university had assets totaling approximately $84.3 million including capital assets and buildings at June 30, 2017.

University officials do not maintain a complete record of all capital assets owned by the university. In addition, the CFO indicated an annual physical inventory of university capital assets is not performed. In 2017, the university completed an inventory of only capital assets purchased with approximately $1 million of federal grant funding. Prior to 2017, the most recent inventory of capital assets occurred in 2013.

During our test work, 7 out of 10 capital assets in various locations could not be traced to capital asset records. For example, a desktop computer, microfilm scanner, and memory writer located in the library could not be traced to capital asset records.

Adequate capital asset records are necessary to better secure university property and provide a basis for determining proper insurance coverage. Board inventory management policy 5410 requires a physical count of all stock supply and equipment items at least once each year.

Recommendation

The Board of Regents ensure complete and detailed capital asset records are maintained and annual physical inventories are periodically performed and compared to the detailed records.

Auditee's Response

We agree with the Auditor's comments and have initiated steps to address them, many of which were in process prior to the initiation of the audit. A *complete annual physical inventory will be performed and compared to the detailed records. The university currently utilizes an automated inventory-management system for its networked computing assets. The system is known as a K1000 Management Appliance. This device exists in a secured, climate-controlled location in the main administration building. The system is monitored by the Assistant Vice President for IT Services and his staff. Networked assets (e.g. connected CPUs) automatically report into central IT's K1000 unless physically or logically removed. The university, however, recognizes that some technology assets exist outside the network channels and must be inventoried in a more manual way.*

The VP for Business and Financial Affairs, the VP for IT Services, and the Director of Facilities Management will develop a formal protocol for identifying assets requiring an annual inventory. This protocol will be in place by July 1, 2019. Assistant directors in each area will be trained on the protocol and the inventory-management system in order to complete annual inventories no later than August 1 of each subsequent year.

As of January 2, 2019, oversight of library technology will be transferred from the Director of Library Services (in the Division of Academic Affairs) to the Division of IT Services. By March 15, 2019, all existing technology will be inventoried by central IT Services personnel under the supervision of the Assistant Vice President of IT Services. Inventory data will be presented in an Excel spreadsheet, reviewed by the Vice President of IT Services, and approved by the Vice President for Business and Finance. The March 15, 2019 inventory will serve as a basis for future, annual audits of library technology assets. As a matter of ongoing practice, inventory discrepancies will be formally documented in the IT Services division and reported to the Division of Business and Finance on an annual basis and no later than March of the given year.

Harris-Stowe State University
Organization and Statistical Information

Harris-Stowe State University, located in St. Louis, Missouri, was formed in 1954, when Harris (founded in 1857) and Stowe (founded in 1890) Teachers Colleges merged. The institution joined the state system of public higher education in 1978 and changed its name to Harris-Stowe State University in 2005.

In the fall of 2017, the university's student full-time enrollment totaled 1,253. The school employed approximately 231 full-time and 465 part-time employees as of June 30, 2017.

The university is governed by a six-member Board of Regents, appointed by the Governor, with the advice and consent of the Missouri Senate. The Board members serve 6-year terms. These individuals serve without compensation; however, they receive reimbursement for any expenses incurred in performing their duties. The Board functions as the legislative and policy-making body of the university. The Board is responsible for defining the purpose of the university, developing and adopting the mission statement, appointing the president of the university, and approving all personnel and financial dealings.

Board of Regents

Name	Term Ends
Ronald A. Norwood, Chairman	July 2020
Vanessa F. Cooksey, Vice Chair Member	July 2020
Reginald D. Dickson, Board Member (1)	July 2016
Christine A. Chadwick, Board Member (1)	July 2016
Debra A. Hollingsworth, Board Member (1)	July 2014
Deborah Price, Board Member	July 2020

(1) Terms have expired; however, the member continues to serve on a voluntary basis until a new appointment is made.

Executive Officers

The Board of Regents appoints a President to serve as the university's Chief Executive Officer. The President appoints four Vice Presidents to oversee various aspects of the university. The following schedule lists the annual compensation reported for these officials:

Name	Position	Compensation
Dr. Dwaun J. Warmack	President (1)	$ 237,786
Dr. Dwyane Smith	Provost & Vice President of Academic Affairs	133,000
Brian M. Huggins	Vice President - Financial and Administration and CFO	95,000
James D. Fogt	Vice President - Information Technology	95,107

(1) Includes $40,000 housing allowance and an $18,000 annuity.

An organization chart follows:

HARRIS-STOWE STATE UNIVERSITY
ORGANIZATIONAL CHART
FY 2017
Version: July 2017

- **Board of Regents**
  - **President**
    - **Director of Internal Affairs**
      - **Exec. Asst.**
    - **Chief of Staff (vacant)**
    - **Dean of Student Success**
      - Student Engagement
      - Health Services
      - Counseling Services
      - Student Government Association
      - Bookstore
      - Dining Services
      - **Asst. Dean of Student Success**
        - Residence Life
        - Student Conduct
    - **Director of Athletics**
      - Intercollegiate
        - Baseball
        - Soccer
        - Basketball
        - Volleyball
        - Softball
        - Intramurals
        - Cheerleading
    - **Vice President of Information Technology**
      - Information Technology
      - Student Information Systems
      - IT Infrastructure Services
      - Help Desk
      - Strategic Planning
      - Assessment & Institutional Research
      - Media Production Services
      - Business Intelligence
    - **Dean of Enrollment Management**
      - Admissions
      - Financial Assistance
      - Registrar
    - **Provost and Vice President of Academic Affairs**
      - College of Arts & Sciences
      - College of Education
      - School of Business
      - Online Education
      - Academic Standards
      - Insitutional Research
      - NEA Union
      - MoLSAMP Grant
      - **Assistant Provost**
        - Academic Resource Center
        - Student Support Services
        - Office of Student Retention & International Programs
        - First Year Programs
        - Accreditation
        - Schedules & Bulletins
        - Graduate Programs
        - Pofessional Education/Continuing Education
      - **Associate Provost**
        - Library
        - Institute for Math & Science
        - Academic Success Center
        - Career Engagement
        - Student Appeals
        - Alpha Chi and Academic Honors Programs
        - Academic Calendar
        - Faculty Research & Development
        - University Institutes
        - Rites of Passage
        - Instutional Research Board
    - **Director of Human Resources**
      - Human Resource Management & Employee Development
      - Title IX
    - **Executive Director for Institutional Advancement**
      - Alumni Affairs
      - Events
      - Harris-Stowe Foundation
      - Development & Advancement
    - **Vice President & CFO**
      - Accounting Services
      - Bursar Services
      - Debt Services, Grants & Auxiliary
      - Operations Services
      - Campus Planning and Expansion
      - Grants & Sponsored Programs
      - Facilities Management
      - Public Safety
      - Business Services
    - **Vice President of Grants and Sponsored Programs**
      - Talent Search
      - Campus Planning and Expansion
      - Grants & Sponsored Programs
    - **Executive Director of Communications**
      - Social Media Intern

Appendix A

Harris-Stowe State University
Statement of Revenues, Expenses, and Changes in Net Position

	Year Ended June 30, 2017	Year Ended June 30, 2016
OPERATING REVENUES		
Tuition and fees (net scholarship allowances)	$ 4,826,354	$ 4,572,854
Governmental grants and contracts	4,611,583	5,024,615
Nongovernmental grants	42,474	4,900
Auxiliary enterprises (net scholarship allowances)	5,336,012	4,351,922
Other operating revenues	834,952	860,136
Total Operating Revenues	15,651,375	14,814,427
OPERATING EXPENSES		
Salaries and wages	12,555,856	11,860,765
Fringe benefits	5,007,756	3,483,584
Supplies and other services	8,816,262	8,097,120
Utilities	1,167,145	1,282,324
Scholarships and awards	2,757,016	2,351,279
Depreciation and amortization	1,896,031	1,916,417
Total Operating Expenses	32,200,066	28,991,489
OPERATING INCOME (LOSS)	(16,548,691)	(14,177,062)
NON-OPERATING REVENUES (EXPENSES)		
State appropriations	9,485,264	10,009,807
Governmental grants and contracts	5,693,535	5,524,683
Gifts	719,906	731,378
Investment income	298,052	35,772
Interest on capital related debt	(1,426,100)	(1,470,343)
Total Non-Operating Revenues (Expenses)	14,770,657	14,831,297
CHANGE IN NET POSITION	(1,778,034)	654,235
NET POSITION, BEGINNING OF YEAR	28,029,516	27,375,281
NET POSITION, END OF YEAR	$ 26,251,482	$ 28,029,516

Source: Harris-Stowe State University audited financial statements. The foundation financial statements are included.

BOARD OF REGENTS

Harris-Stowe State University's governing Board of Regents and administration would like to thank the Office of Missouri State Auditor for the thorough efforts put forth to conduct an audit of the University's financial statements, policies, guidelines and procedures between November of 2017 and June of 2018.

With a legislated mission to serve the unmet higher educational needs of the greater St. Louis region, Harris-Stowe State University serves a large population of minority, first-generation, low income college students. With year after year increases in student enrollment, performance and graduation rates, we believe that the University is continuing to improve the lives and outcomes for many minorities and other disadvantaged individuals who might otherwise be unable to complete college at other institutions of higher learning. The University decision makers are committed to our mission to provide a quality education and college attainment for under-represented populations while working to ensure HSSU has adequate resources to achieve that mission. We are also committed to ensuring HSSU has sound, ethical, and legal governance and financial management policies to strengthen the fiscal health and wellbeing of the University as a whole.

As a state institution, the decisions of the University's Board of Regents and administration are also shaped by agreements and expectations of the Missouri Department of Higher Education, the Council on Public Higher Education (COPHE), the Missouri Governor's office, General Assembly, federal-level oversight entities, and our accrediting bodies (most notably The Higher Learning Commission). For example, fiscal decisions such as raising tuition tend to occur within a larger context in which the General Assembly, MDHE, and COPHE collectively act to determine an appropriate amount for all state institutions to increase tuition. In exchange, legislative bodies are better able to shoulder some of the student cost through increases in core appropriations (or by minimizing funding cuts). If the University acted independently to raise tuition higher than the amount recommended by these agreements to the maximum amount allowed by statute, it would destabilize these agreements. Maintaining large fund balances also creates challenges for these agreements, as the University must balance its need to invest in infrastructure and ensure its obligations to its constituents on a very limited and somewhat unpredictable budget. We feel it important to share this context as it relates to why the University expresses disagreement with several of the findings below. In areas in which we disagree, we do so respectfully and with a welcome appreciation for the perspective and input the State Auditor has provided. In sections where the University has noted it is in agreement with the State Auditor's findings, we have outlined specific policies and activities we are continuing to pursue or will initiate to remediate the issues raised. Please feel free to contact us with any questions or requests for clarification.

We requested this audit because we are committed to ensuring that the University is successful in providing a quality education to our increasingly growing and talented student body and ensuring we have sound policies and practices in place. We are appreciative of the substantive work of the Auditor's office, their professionalism and the extensive time they have invested in the review process. We hope to serve as an example of transparency and reflective assessment for how public institutions can engage the office of the auditor to continuously improve fiscal processes and procedures.

Respectfully Submitted,

Ronald A. Norward

Chairman, Board of Regents