MISSOURI SOUTHERN STATE COLLEGE

From The Office Of State Auditor
Claire McCaskill

Report No. 2001-11
February 22, 2001
www.auditor.state.mo.us

AUDIT REPORT

Office Of The
State Auditor Of Missouri
Claire McCaskill

February 2001

www.auditor.state.mo.us

YELLOW SHEET

<u>Questionable practices at Missouri Southern State College include awarding vendor contracts in exchange for donations, and free international trips for employees' spouses.</u>

Our audit covered fiscal years 1998 and 1999 and noted 14 findings in areas such as questionable contracting practices, concerns of nepotism, weak travel policies, public funding of a private nonprofit organization, overpayments to seminar coordinators, and unreasonable and improper expenditures. The following highlight the audit's conclusions:

Food vendor made donations to the college to gain and keep contract.

College officials have not bid the food service contract since 1994 and have not reviewed student surveys evaluating the food quality. In addition, the food vendor has donated $325,000 to the college for capital improvements and $15,000 to a private, nonprofit organization run by the college president's wife. As a result of a 1997 donation of $200,000 for a new cafeteria, the college extended the vendor's contract through June 2005. Because the contract has not been bid since 1994, college officials cannot assure the campus has the most qualified vendor at the best cost. (See Page 8)

Reviews of international trips revealed weak travel policies.

Between July 1, 1998 and March 31, 2000, the college spent approximately $655,000 on international travel; however, the college has not established formal written travel policies and procedures. As a result, we noted inaccurate reporting of trip expenditures, inconsistency in the number of trip chaperones, and no bidding of travel agents.

In addition, the spouses of the chorale director and a music professor went on free trips to Austria with the student choir, a trip which the students raised money to attend. These complimentary trips, totaling $3,246, materialized when the travel agent awarded one free trip to the college for the large group attending, and the college's International Studies department allocated excess funding to the music professor.

College officials, in response to our audit, have agreed to repay the costs of the free trips and develop travel policies and procedures. (See Page 10)

The college provided public funds to a private piano competition.

The college pays the operating expenses for the Missouri Southern International Piano Competition, a nonprofit organization run by the college President's wife. In addition, the

(over)

college's contract with their food vendor provides for donations to this organization. Using public funds to pay expenses of a private nonprofit organization violates the Missouri Constitution. (See Page 17)

Criminal justice seminars coordinators were overpaid.

A college vice president and a criminal justice professor together received compensation of approximately $87,500 in addition to their regular salaries for coordinating criminal justice seminars. These individuals' inaccurate reports of the seminar resulted in excess compensation of $1,522 each. In addition, the inadequate documentation did not show the number of participants or the amount each participant paid, which made it impossible to verify reported revenues.

College officials responded that they have revised their policy governing these seminars, and will request reimbursement of the overpayments from the vice president and the criminal justice professor. (See Page 20)

The college's nepotism policy has not been strictly followed.

A college vice president/dean supervised his son, an assistant professor in his father's department. College policy does not allow this type of hiring unless without written approval from the college president. In addition, the vice president/dean approved a $1,000 dean's initiative grant for his son, and $8,650 in additional compensation for hours he taught beyond his original employment contract.

The college responded that the president provided verbal approval for the son's hiring, and that the father no longer serves as the dean of his son's department. (See Page 21)

Some expenditures appear unreasonable and improper.

The college paid $30,317 for a $1.5 million life insurance policy for the College President but is the beneficiary for only $500,000 of the policy. In addition, the college paid $1,145 to send the President to the Mayo Clinic in Rochester, Minnesota for his annual physical examination. (See Page 16)

The theatre director used excess fees collected from continuing education students to fund two $882 trips to New York City for two college secretaries.

During fiscal years 1998 and 1999, the college spent more than $22,000 hosting a formal Christmas ball for employees and the Board of Regents. The college responded that they believe this expenditure is a good investment in people. (See Page 25)

Our audit also reviewed the college's policies regarding the use of college-funded vehicles, cellular phones, and credit cards. The audit also noted bonuses paid to college staff and loans to professors not being properly monitored and collected. (See Page 21)

MISSOURI SOUTHERN STATE COLLEGE

TABLE OF CONTENTS

STATE AUDITOR’S REPORT

CLAIRE C. McCASKILL
Missouri State Auditor

Honorable Bob Holden, Governor
and
Board of Regents
and
Dr. Julio S. Leon, President
Missouri Southern State College
Joplin, Missouri 64801

We have audited the Missouri Southern State College. The scope of this audit included, but was not necessarily limited to, the years ended June 30, 1999 and 1998. The objectives of this audit were to:

1. Review and evaluate selected college personnel practices and procedures.

2. Review and evaluate certain college purchasing practices and procedures.

3. Review certain revenues received and certain expenditures made by the college.

4. Review certain internal control procedures, legal compliance issues, and management practices to determine the propriety, efficiency, and effectiveness of those procedures and practices.

Our audit was conducted in accordance with applicable generally accepted government auditing standards and included such procedures as we considered necessary in the circumstances. For the years ending June 30, 1999 and 1998, Missouri Southern State College engaged Mense, Churchwell & Mense, P. C., Certified Public Accountants, to perform annual audits of the college. To minimize any duplication of effort, we reviewed the audit reports, substantiating work papers, and letters to management of this firm. We also reviewed budgetary and planning records, revenues, expenditures, contracts, applicable legal provisions, rules and regulations, policies, and other pertinent procedures and records, and interviewed college and other state personnel.

As part of our audit, we assessed the college's management controls to the extent we determined necessary to evaluate the specific matters described above and not to provide assurance on those controls. With respect to management controls, we obtained an understanding of the design

224 State Capitol • Jefferson City, MO 65101 • (573) 751-4824 • FAX (573) 751-6539

Truman State Office Building, Room 880 • Jefferson City, MO 65101 • (573) 751-4213 • FAX (573) 751-7984

of relevant policies and procedures and whether they have been placed in operation and we assessed control risk.

Our audit was limited to the specific matters described above and was based on selective tests and procedures considered appropriate in the circumstances. Had we performed additional procedures, other information might have come to our attention that would have been included in this report.

The accompanying Statistical Section is presented for informational purposes. This information was obtained from the college's management and was not subjected to the procedures applied in the audit of Missouri Southern State College.

The accompanying Management Advisory Report Section presents our findings arising from our audit of Missouri Southern State College.

Claire McCaskill
State Auditor

May 4, 2000 (fieldwork completion date)

The following auditors participated in the preparation of this report:

Director of Audits:	Kenneth W. Kuster, CPA
Audit Manager:	Donna Christian, CPA
In-Charge Auditor:	Pamela Crawford, CPA
Audit Staff:	Amy Fast
	Sandi Ohern, CPA
	Jay Ross
	Jody Vernon, CPA
	Troy Royer

MANAGEMENT ADVISORY REPORT SECTION

MISSOURI SOUTHERN STATE COLLEGE
SUMMARY OF FINDINGS

1. <u>Food Service Contract</u> (pages 8-9)

The college has not solicited bids for campus-wide food services since 1994 and has extended the original contract through 2005 in consideration of significant capital improvement contributions made by the vendor to the college.

2. <u>International Travel Expenditures</u> (pages 10-15)

Significant weaknesses were noted regarding the policies, procedures and records related to the college's international mission and the Institute of International Studies. The chorale director and a professor used a free trip given to the college and funding from the college to pay for their wives to accompany them on a trip to Austria. The chorale director did not refund monies received from a student who was unable to attend the Austria trip, in accordance with a written agreement with the student.

3. <u>President's Compensation</u> (pages 16-17)

The President's compensation contract contains provisions not typical of provisions in most other college and university presidents/chancellors compensation packages. Country club renovation fees were not properly reported for tax purposes on the President's W-2 form.

4. <u>Missouri Southern International Piano Competition</u> (pages 17-20)

The college contributed funds to and paid various operating expenses of the Missouri Southern International Piano Competition, a nonprofit organization, which appears to violate the Missouri Constitution. The director of this organization is the wife of the College President.

5. <u>Seminars</u> (pages 20-21)

Seminar reports prepared for criminal justice seminars did not include all direct expenses of the seminar, resulting in excess compensation of $1,522 being paid to the Vice President of Lifelong Learning and a criminal justice professor. Seminar fees charged to attendees of criminal justice seminars are not approved or reviewed by someone independent of the seminar coordination duties, and adequate documentation was not maintained to verify the number of participants and the amount paid by each participant. Policies and procedures for the continuing education work program were not consistently followed by all departments.

6. <u>Payroll Records and Personnel Policies</u> (pages 21-25)

The Vice President of Lifelong Learning supervises his son, an assistant professor of criminal justice, and approved his son to receive a $1,000 dean's initiative grant and additional compensation of $8,650. These actions appear to violate the college's nepotism policy. The college paid $40,792 in bonuses to deans, department heads, professors, and other employees during the year ended June 30, 1999. The college has entered into seventeen loan agreements totaling $210,223 with various professors to aid them in obtaining their masters and doctorate degrees, without establishing written policies and procedures to properly approve, monitor, and collect these loans. One of these loans has been modified five times with the new requirements for repayment appearing unreasonable. Written policies regarding faculty release requirements and tuition waivers need to be clarified and enforced.

7. Expenditures (pages 25-34)

The college's bid policy was not always followed, and documentation was not maintained to substantiate situations in which the low bid was not accepted or bids were not obtained due to sole source procurement or emergency situations. Written policies have not been established for membership dues. The theatre director used excess fees collected from continuing education students to pay for a trip to New York City for two college secretaries. The campus activity board lost $12,600 on a concert provided to students funded from student activity fees. Some expenditures noted may not be a prudent or necessary use of college funds. Numerous instances were noted where expenditures were not approved in accordance with college policy. Several individuals in all departments have the ability to add vendors to the college purchasing system, and the college's vendor list contained over 45 duplicate vendor names. The college does not monitor funds received from the Missouri Southern Foundation to ensure funding requirements are complied with, and transactions were incorrectly recorded in financial statement accounts. The college expended approximately $550,000 because of change orders needed for the construction of the field house, and architects for construction projects are selected solely by the Senior Vice President.

8. College Vehicles (pages 34-38)

The college spent $10,700 more on vehicle insurance by using a local insurance company, who is a college contributor, instead of utilizing the state insurance contract during the years ending June 30, 2000, 1999, and 1998. The college has not reviewed and evaluated travel policies and practices. Mileage logs are not maintained for athletic department vehicles, and the admissions office does not maintain adequate documentation to support each car rental and related travel expenses.

9. Cellular Phones (pages 38-40)

The college did not solicit bids for cellular phone service and has not developed a formal written policy regarding cellular phone usage. The college had not adequately monitored cell phone usage and fees charged to the college, and phone bills are not properly reviewed and authorized before payment.

10. Credit Cards (pages 40-41)

The college has not established written policies regarding the use of the state issued procurement cards. Adequate supporting documentation was not always retained, and some credit card bills were only approved by the cardholder.

11. Advertising and Ticket Sales (pages 42-44)

The college does not record revenues and expenses related to exchanges of services for advertising at sporting events on the college's financial statements, and the college did not always maintain documentation of these exchanges to ensure they received the contracted benefit. Advertisers were not always charged in accordance with the college's marketing book. Procedures and records over ticket sales at athletic events and at the box office need improvement.

12. Accounting Procedures and Controls (pages 44-48)

The internal auditor reports to the budget director instead of the Board of Regents. Several accounting procedures and controls of the business office need improvement. The college has not established policies and procedures for the type of investments and bank accounts needed to maximize the interest earnings of the college and reimbursement of business related expenditures from personal funds through the petty cash system.

13. Fixed Assets (pages 48-50)

Fixed asset purchases totaling more than $652,000 were not included on the inventory records. A physical inventory of the fixed assets has not been performed since January 1998. Various items were not properly tagged as property of the college, and the fixed asset records did not always include complete and accurate information.

14. Vendor Refunds and Payments (page 50)

A separate report issued by the State Auditor's office on July 27, 2000, concluded that at least $22,190 was misappropriated.

1. Food Service Contract

Missouri Southern State College (MSSC) contracts with an outside food service vendor to provide campus-wide food services (excluding vending). Since July 1994, the college has paid its food service vendor more than $2.6 million. The food service vendor also uses the college facilities to provide private catering services in exchange for a twenty percent catering commission payable to the college.

The college solicited bids for a food service vendor in July 1994. According to college personnel, bidders were requested to propose a capital improvement contribution to the college as part of their bids. As a result of this bid process and the resulting contract award, the current food service vendor was required to make a $125,000 donation to the college's capital improvement fund and a biennial donation of $5,000 to the Missouri Southern International Piano Competition, a nonprofit organization whose director is the wife of the college president. The contract also provided the college the option to renew the contract annually for four years through June 1999.

No bids have been solicited by the college since July 1994. In addition, the food service vendor has conducted a student survey each semester to evaluate the quality of meals served, but the college has not reviewed these surveys to ensure students are satisfied with the food quality. In September 1997, the college requested and later received an additional donation of $200,000 from the food service vendor. In consideration of this donation, the college renewed the food service contract through June 2005.

Because the food service contract has not been bid since 1994, college officials have no assurance that food services are being obtained from the most qualified vendor at the lowest and best cost. Furthermore, the current vendor has been awarded additional contract years as a result of significant contributions being made to the college without college officials considering the quality of the current services and products. It should also be noted that the college has a beverage contract that has been bid with a contribution clause included in the bidding requirements, and college personnel indicated there were plans to solicit other contracts in this manner. In addition to the college's food service vendor, the college has also obtained vehicle insurance services from a vendor who financially support the college. As discussed later in this report, bids were also not solicited for this purchase.

Soliciting proposals and entering into a truly competitive bidding process provides the college a means to select the vendor best suited to provide the service required. Good bidding practices provide the college with a range of possible choices which should allow for a better-informed decision to be made when acquiring necessary services.

WE RECOMMEND the MSSC solicit bids for college food service, and review student surveys regarding food quality and service.

AUDITEE'S RESPONSE

The College solicited proposals for a food service vendor in July, 1994. Bidders were not required to make capital contributions; however, based on examples from several other Missouri colleges and universities, the RFP did state that a capital investment was encouraged to help pay for the new Student Life Center. At no time was any request made for donations to the Missouri Southern International Piano Competition.

The proposals were evaluated based strictly on the price of the meals, perceived quality of the program, experience of the company, and the qualifications of the proposed management personnel.

After the award of the contract, additional elements of the response to the RFP were then incorporated into the contract. These included scholarships, free meals for admission purposes, a biennial donation to MSIPC, free meals for residence hall staff, a free fall picnic and free lunches for the Board of Regents. These additional items played no part in the evaluation process, but good business dictated that the unsolicited offers made by the awarded bidder in the RFP be incorporated into the actual agreement.

In order to ensure on-going quality measurement of food service, the Student Senate has a "Food Committee" that has been in existence for at least 15 years. This committee meets at least once a month and reports to the Student Senate and the Assistant Vice President for Student Services any complaints concerning quality. In addition, the President and Vice Presidents meet at least annually with the Student Senate. At no time has the quality of the food service been a discussion point. Finally, the professional residence hall staff eat in the cafeteria with the students to monitor the quality of food service.

In September, 1997, the contract was re-negotiated. The food service company agreed to make an additional $200,000 capital contribution to help build a new cafeteria. The College agreed to extend the contract for five years. However, it should be noted that the extension was on very favorable terms for the College. We were able to re-negotiate the last year of the then current contract from a 4% increase to a zero increase. The subsequent five years are at 3% increase. Therefore, the average annual increase for the period covered by the re-negotiation was 2.5%. We submit that anytime you can extend a contract which is working well at annual rates below inflation and receive a capital contribution, it makes good business sense to do so.

The College will continue to seek student input regarding the quality of the food service and will re-bid food service whenever quality and/or price become a significant factor.

2. International Travel Expenditures

On June 15, 1990, the Board of Regents approved a recommendation to pursue an international approach to undergraduate education. Section 174.231, RSMo Cumulative Supp. 1999, states that Missouri Southern State College "…shall develop such academic support programs and public service activities it deems necessary and appropriate to establish international or global education as a distinctive theme of its mission." As part of this mission, MSSC has offered opportunities for students and faculty to study abroad, and the college has established the Institute of International Studies (IIS), a separate department within the college. The IIS is responsible for reviewing trip requests and awarding funding to students and faculty for approved trips. For the period July 1, 1999 to March 31, 2000, and for the year ended June 30, 1999, the college expended approximately $380,000 and $275,000, respectively, on international travel expenses for students and faculty as part of the international mission. During our review of international travel expenditures, we noted the following:

A. The college has not established formal written policies and procedures to properly account for each trip. Currently, the IIS allocates funds awarded to students and faculty and the business office transfers these funds to a specific trip account. The IIS maintains a log of funds awarded to students and faculty. The trip administrator collects the remaining funds due from students and faculty, submits these funds to the business office, and prepares a report accounting for the revenues and expenditures of each trip. During our review of fifteen trips, we noted the following concerns:

1. Reports prepared by trip administrators varied by administrator and were not always accurate and complete. For example, the Chorale Director's accounting of the Austria trip overstated revenues by $10,200 and understated expenditures by $6,800. In addition, the reports prepared by the trip administrators are not reviewed by either the IIS or the business office.

2. Adequate supporting documentation was not always retained to support trip expenditures. For example, neither the criminal justice department nor the business office obtained supporting documentation of trip costs totaling approximately $62,000 paid to an outside travel agent by the college for the criminal justice department's intercession trip to Spain, Morocco, and England in 1999. In addition to the amounts paid to this travel agent by the college, the students participating in this trip also paid nearly $36,900 to the travel agent for their share of the travel costs.

3. The log of funds awarded to students and faculty maintained by the IIS for international travel costs was not always accurate and complete. For example, the log prepared for the year ending June 30, 1999, indicated that $10,200 had been awarded to students for a chorale trip to Austria;

however, these funds were not transferred to the applicable trip account, and, as a result, not spent on this trip. Neither the trip administrator nor the director of the IIS were aware that the money had not been transferred. In addition, the IIS log contained several students who were unable to attend various trips. The trip administrator reallocated these funds to other students attending, and the IIS did not adjust their records for these changes.

The college should establish written policies and procedures to properly account for the IIS funds and trip revenues and expenditures. These policies and procedures should include a review process that would ensure the trip administrator's report of revenues and expenditures is compared to the IIS log of funds awarded to students and faculty and records maintained by the business office. In addition, the college should ensure that adequate documentation is retained to support all expenditures.

B. Each trip administrator selects the travel agency used for each trip. College purchasing policies dictate that purchases exceeding $2,000 require an informal unadvertised bid, and purchases equal to or greater than $10,000 require a formal advertised bid. Amounts paid to travel agents for several of the trips we reviewed exceeded $10,000; however, bids were not solicited.

Bidding procedures for major purchases provide a framework for economical management of public resources and help ensure the college receives fair value by contracting with the lowest and best bidders. Competitive bidding also helps ensure all parties are given an opportunity to participate in the college's business.

C. The college chorale traveled to Austria to perform. We noted the following concerns regarding this trip:

1. The travel agency awarded a free trip to the college due to the number of faculty and students attending. The Chorale Director used the free trip totaling $2,228 for his wife. In addition, a music professor was allocated funds from the IIS and from the music department which totaled $1,018 more than his actual trip costs. These excess funds were used for his wife's travel costs. No one other than the Chorale Director approved these decisions.

   These costs do not appear to be prudent or necessary uses of college funds. In addition, the free trip should have been used to offset the college's portion of the travel expenses. The college should request reimbursement from the Chorale Director and music professor.

2. The Chorale Director required each student to pay a $200 deposit and sign an agreement that the deposit was nonrefundable. One student made payments totaling $500 (including the $200 deposit), and then was unable

to attend the trip. The student did not receive a refund for any portion of his payments, even though only the $200 deposit was not refundable. The college should ensure students receive refunds in accordance with any written agreements signed by the students.

3. Chorale students performed at area churches and businesses to raise donations for the trip to Austria. The Chorale Director distributed the donations to the students to use as spending money on the trip. The amount of donated funds distributed to each student ranged from $8 to $157. Some students who performed did not receive any funds, while some students that did not perform received funds. The Chorale Director could not provide an explanation for the disparity in distributions. Monies collected through fund raising efforts to offset the costs of the trips should be distributed in a fair and equitable manner, or documentation retained to justify the varying amounts distributed.

D. The college is not consistent in awarding funds to students and faculty for international studies trips. Some students attending the same trip were awarded different amounts from the IIS. Documentation was not retained indicating why funds awarded varied among students.

The IIS also allocates each of the four college deans $5,000 annually to spend at their discretion on international trips or for internationalizing the campus. During our review of the criminal justice department trip to Spain, Morocco, and England, we noted $1,000 was awarded to two of three faculty members attending the trip and funds ranging from $500 to $900 were awarded to five students attending this trip. These awards were made by the Dean of the Criminal Justice Department from his discretionary funds. Documentation was not retained by the dean to indicate why award amounts varied or to verify how award amounts were determined.

To ensure fair and equitable treatment among students and faculty, written policies and procedures should be established to determine how funds are awarded and documentation should be retained to verify amounts awarded.

E. The college does not have policies and procedures regarding the number of faculty chaperones for each trip. We noted some trips in which one chaperone was used for every ten students, while another trip had three chaperones for only seven students. The college should establish polices and procedures to determine a reasonable number of faculty chaperones per students attending.

<u>WE RECOMMEND</u> the MSSC:

A. Establish written policies and procedures for international trips, including a review to ensure the trip administrators' reports and the IIS log of awards are compared to the business office trip account activity. In addition, ensure that adequate supporting documentation is retained for all expenditures.

B. Ensure that college bidding policies are followed for travel expenses.

C.1. Seek reimbursement of $2,228 from the Chorale Director and $1,018 from the professor. In the future, the college should ensure that payments are only made for travel expenses of college employees, and that all free trips received from the travel agency are used to offset qualified college expenses.

2. Refund the $300 overpayment to the applicable student, and in the future, ensure students receive refunds in accordance with written agreements.

3. Ensure monies collected through fund raising efforts are distributed in a fair and equitable manner, or retain documentation to justify other distribution methods.

D. Establish a policy indicating how grant awards are to be determined, and ensure all students and faculty are treated fairly and equitably in the awards of the grants. In addition, documentation should be retained to support how discretionary monies provided to the deans are awarded.

E. Establish policies and procedures regarding the number of chaperones necessary for student trips.

AUDITEE'S RESPONSE:

A.1. The Institute of International Studies (IIS) began sending students abroad in FY 97 with approximately 10 trips involving 59 students. During this past fiscal year, approximately 200 students traveled abroad on over 30 different trips. As this mission has evolved and grown over the years the need for more accountability has increased.

All reports prepared by the trip administrator are preliminary estimates and were not intended by the administration to be an exact accounting of the trip. In addition to the preliminary estimates, each administrator is required to prepare a travel expense report upon completion of the trip. These travel expense reports reflect out-of-pocket expenses incurred by the trip administrator and are verified by both the IIS and the business office. The business office prepares a summary of the trips to verify the accounting in the general ledger.

2. The Criminal Justice Department's intercession trip to Spain, Morocco and England in 1999 was a package price quoted by a local travel agent. As with most travel packages, an itemized breakdown by cost is not given. The total package price included airfare, hotels, daily meals, tours and sightseeing. The total amount paid by the College to the travel agent for 36 students and 3 faculty members was $62,237. This combined with the amounts paid directly to the travel agent by the students totaled approximately the package cost times 39 individuals.

3. *A log of International Grant Applications is reviewed at least three times per year by a selection committee consisting of the four deans and four additional faculty members. This log is constantly updated as applications are received by the IIS and as students accept the grants approved. With the volume of applications continuing to increase the task of maintaining an up to date logbook becomes increasingly difficult. For the Austria trip in 1999, donations totaling approximately $11,000 were received from outside sources in addition to $20,000 received from MSSC Foundation. These amounts were used to offset costs to the students in addition to the IIS Grants. This allowed the institute to use institutional funding to benefit other students who had financial needs on other trips.*

   In summary, meetings have been and will continue to be held between the business office, the IIS and trip administrators, and policies and procedures will be established by July 1, 2001, in order to maintain the accuracy of all records.

B. *When trip administrators select a travel agent for their respective trips, they will look for an agent who is familiar with the region of the world they will be visiting. Some agents offer packages which provide the best rates for that area and time of travel. Occasionally a consolidator will be used to further decrease the rates charged. It is sometimes not feasible to obtain bids on trips when other alternative sources for travel services can be obtained. The administration wants an agent who will provide services in order to achieve the most hassle free trip for the students and faculty traveling in uncharted waters.*

   With the numerous options available (direct pay, travel agents, consolidators, etc.), it may not always be possible to bid travel services. The College will continue to seek the lowest cost travel providers and will document such efforts in the future.

C.1. *Occasionally, as an incentive to choosing them, a travel agent will offer additional trips to be used as the customer requests. The Chorale Director and professor will begin repayment of the $2,228 and $1,018 respectively. All future free trips will be used to offset College expenses.*

2. *Numerous trips require the student to make a deposit to the college in order to reserve their reservation on that particular trip. In most cases, these deposits are non-refundable in order to confirm the student's sincerity of participating on the trips due to the limited number of seats.*

   The Austria trip taken by the Music Department in the Spring of 1999 required students to make periodic payments to hold their reservations. A non-refundable deposit of $200 was made by one student on September 11, 1998.

   This student enrolled in the Spring 1999 semester and made an additional $300 payment on February 3, 1999. Periodic payments were made by the College to the travel agency for reservations from October 1998 through April 1999. The Chorale Director was notified of the student's absence from classes and chorale practices for the trip.

According to the Chorale Director, repeated attempts were made to contact the student, but failed. Due to the payment made by the student, a reservation was still being held for him on the trip. The student eventually withdrew from school on March 19, 1999, and was placed on academic suspension. The Chorale Director was notified on March 31, 1999, by the student that he would not be participating on the trip. Due to the lack of sufficient time between the notification by the student and the May 23, 1999 departure date, a replacement could not be found. Further research will be conducted to determine if a refund will be granted to the student.

All future agreements will have a refundable payment schedule, and the College will adhere to those agreements.

3. *All monies received by fund raising efforts are deposited to one general ledger account. Any distribution of these funds should be made evenly to the participants. The College will adequately document the method of distributing future fund raising efforts.*

D. *As stated in 2.A.3. above, a selection committee reviews all applications regarding IIS funding. Students request International Grants on the application. The committee determines how much institutional funding is available and how much is requested by the students. A percentage of the amount available to the amount requested is calculated and applied to each request. The amount awarded is adjusted up or down by $50.00 once the committee reviews the financial aid records for financial need. This information is summarized on the log at every committee meeting. Consequently students on the same trip could receive different amounts due to the amount they requested and their financial status.*

Each dean allocates the $5,000 allotment from the IIS after reviewing their individual international travel needs of their departments. Consultation with their staff provides them with insight into future travel needs and desires. The criminal justice department allocated a portion of their allotment on faculty and students based on their financial needs.

Written policies will be maintained and documentation retained on the method of determining and awarding grants by July 1, 2001.

E. *The IIS general policy for chaperones is one faculty for every ten students. Occasionally when a trip is in the initial planning and organization stage, more students apply than is expected. Due to the original number of students, the faculty chaperones are assigned accordingly. As the trip is being planned and the number of students decrease, the need for the chaperones are reduced. Due to plans and arrangements made on behalf of the faculty chaperones, the number needed for the trip is not reduced. Also, the faculty chaperones may be teaching or learning while on the trip and therefore need to be in attendance even if the student/chaperone ratio changes.*

Written policies and procedures regarding the necessary number of chaperones will be developed by July 1, 2001.

3. President's Compensation

A. The College President's employment contract provides for a $1.5 million life insurance policy. An addendum to the President's employment contract requires the college to pay $1 million of the life insurance proceeds to the President's family as beneficiaries upon his death. The policy also accrues a cash surrender value which the college intends to serve as an additional form of deferred compensation for the President. The college paid $30,317 in December 1999 for this coverage. Considering the cost of the policy and that the college benefits from only one-third of the actual policy, it appears this contract provision may not be reasonable or in the best interest of the college.

Additionally, the employment contract provides for an annual physical examination for the President. Although not stated in the contract, the physical examination is provided by the Mayo Clinic in Rochester, Minnesota. The transportation and examination costs associated with this contract provision do not appear to be reasonable or necessary. The cost of the physical examination and travel expenses for the President under this contract in calendar year 1999 was $1,145. This benefit is far more generous than the health benefits provided to faculty and employees of the college.

According to a report prepared by the Missouri Department of Higher Education, these provisions are not typical of provisions found in most other presidents'/chancellors' compensation packages for the state's colleges and universities.

B. The President's employment contract provides for two country club memberships. During 1999, the college paid $2,626 for membership dues and an additional $600 for renovation fees. Only the membership dues were included on the President's Form W-2. The college should ensure all fringe benefits are properly reported for tax purposes on the employees' W-2 forms.

WE RECOMMEND the MSSC:

A. Through the Board of Regents, review the President's employment contract to ensure all contract provisions are reasonable and prudent.

B. Properly report all taxable fringe benefits and amend the President's W-2 form to include the renovation fees associated with the country club membership.

AUDITEE'S RESPONSE:

A. Any presidential compensation package is designed to meet a particular individual's needs and to accomplish the board's purpose of retaining highly qualified individuals to lead colleges and universities.

In the early nineties, the Board of Regents at Missouri Southern State College was concerned that the President was receiving a number of inquiries about other positions. They were extremely anxious to keep him at Missouri Southern. Also, the Board was concerned about the number of hours he spends traveling by car to various meetings, most of which are one-day meetings in Jefferson City requiring a seven-hour drive. In light of those two concerns, he was offered the split-dollar life insurance policy. By its terms, it serves as a deferred compensation tool, which many presidents in Missouri have, and at the same time protects his family and effectively locked him into a 10-year period of employment here at Missouri Southern. We submit this is very reasonable and in the best interests of the College.

The annual physical is also very standard in both industry and colleges and universities. However, it should be noted that although provided for contractually on an annual basis, in actual practice, the President only goes every two or three years. In addition, when he goes, he drives rather than flying as some Presidents do. It should also be noted that Mayo Clinic is part of the College's PPO network.

The Board will continue to review the President's contract on an annual basis.

B. The College inadvertently omitted the renovation fee from the President's W-2. We have always put regular membership dues on his W-2. The College will properly report all taxable fringe benefits and, if necessary, amend the President's 1999 W-2 to reflect the $600 renovation fee.

4. Missouri Southern International Piano Competition

The college serves as the headquarters for the Missouri Southern International Piano Competition (MSIPC). The MSIPC is a nonprofit organization whose director is the wife of the College President. Its main purpose is to bring the citizens of the area a world-class cultural event (the piano competition) every two years, which will promote the appreciation of fine music and bring recognition to the college, the City of Joplin, the region, and the state. Our review of the relationship between the MSIPC and the college revealed the following:

1. The college provides office space, utilities, accounting services, public information services, and the use of two college auditoriums and other rooms in the music building to the MSIPC. The costs associated with these services are not tracked or billed to the MSIPC by the college. In addition, the college also provided a secretary and a student worker to the MSIPC. The college paid $22,437 and $24,029 for these salaries during the years ending June 30, 1999 and 1998.

2. The college bills the MSIPC monthly for telephone, postage, and overtime janitorial service costs not recovered from the MSIPC ticket sale revenues

collected by the college. The balance due from the MSIPC at April 17, 2000, was $1,603. No payments had been made by the MSIPC since November 17, 1999.

3. The College's contract with their food service vendor provides for a $5,000 biennial cash contribution to the MSIPC, and the college's Institute of International Studies (IIS) provided a $2,500 cash contribution to the MSIPC in March 2000.

4. The President was reimbursed $572 by the college in January 1999 for meals provided to a group attending the International Piano Competition's New York City Carnegie Hall performance.

It does not appear necessary or reasonable to use college funds to cover operating expenses of a private organization, nor to provide donations or require the college's food service vendor to provide a contribution to this organization. Furthermore, using public funds to pay expenses of a nonprofit organization violates Article III, Section 39 (1) of the Missouri Constitution. Because of the relationship between the MSIPC and the College President, any further contracts with this organization should be approved by the Board of Regents. It should also be noted that the college provides office space to the Missouri Southern Foundation and the Missouri Southern Alumni Association, both of which are legally organized nonprofit organizations.

WE RECOMMEND the MSSC comply with Article III, Section 39 (1) of the Missouri Constitution and refrain from donating or lending public funds to private organizations. In addition, the College should review costs incurred that relate to the operation of the MSIPC, and request full reimbursement for any costs not covered by ticket sale revenues. Also, any further contracts with MSIPC should be approved by the Board of Regents.

AUDITEE'S RESPONSE:

The Missouri Southern International Piano Competition was organized originally by the Music Department at Missouri Southern. It was felt that it fit extremely well into our mission, both from an academic standpoint and as our obligation to serve as the cultural center of the area. With the addition of the international component to our mission, it is even more important than originally envisioned.

After the Music Department ran the first two competitions, it was apparent that the event had outgrown the Department's ability to continue to run it as a stand-alone College program. As a result, a non-profit organization was formed to provide personnel to direct the competition and to raise private funds to cover direct expenses. Based on similar agreements with our Foundation and the Spiva Art Center, the College entered into an agreement with the MSIPC.

1. The agreement provides that the College will provide facilities, secretarial help and some services in return for the non-profit organization continuing to promote the competition as a College event. The MSIPC reimburses the College for all out-of-pocket expenses other than the contracted services.

2. *There was no intent to link ticket sales to the costs of the College. It was envisioned that the College would incur some costs that would be more than offset by the promotion of the competition as a Missouri Southern event and the benefits derived by our students and faculty who attend music performances and masters classes for free. Any balances are paid as the MSIPC brings in revenue on a biennial basis.*

3. *The College, as stated previously in Item 1, did not require the food service vendor to make a biennial contribution to the MSIPC. This was volunteered as part of an RFP response but was not part of the evaluation process when the vendor was selected. The Institute of International Studies did not make an actual cash contribution to the MSIPC. Although the receipt from the MSIPC was on a form which used the term "contribution," in reality the monies were paid because the College shared the cost of a well-known international lecturer/performer to provide a free presentation to all Missouri Southern students and faculty as part of our lecture series.*

4. *The President was reimbursed for reasonable business and entertainment expenses directly benefiting the College by furnishing breakfast to a group of individuals who got up at 5:00 a.m. to help promote the College on the Today show.*

The College respectfully disagrees that the agreement with the MSIPC violates Article III, Section 39(1) of the Missouri Constitution. That section talks about extending credit of the State to benefit other corporations. We do not extend credit to the MSIPC. We have an agreement which exchanges facilities and services for services rendered (promotion of the College, cultural and educational benefits to our students, and furtherance of its cultural and international mission).

The College will comply with Article III, Section 39(1) of the Missouri Constitution as interpreted by the College Attorney. Our College Attorney advises that Article III, Section 39(1) has been interpreted to permit leasing of stadium facilities because the primary purpose was to increase convention and sports activity just as the primary purpose here is to increase cultural and international knowledge and participation.

Any further contracts with MSIPC will be approved by the Board of Regents.

AUDITOR'S COMMENT

The primary purpose of the College's financial support of the MSIPC is not for the promotion of MSSC. In fact, the only promotion of MSSC that we noted in the MSIPC literature was that the event would be held on the MSSC campus. The discussion in the court case referred to by the College's Attorney indicates that if the primary object of a public expenditure is not to subserve (or carry out) a public purpose, but to promote some private end (the MSIPC), the expense is illegal, even though it may incidentally serve some public purpose.

Futhermore, we have noted numerous Attorney General Opinions that have addressed the issue of whether public entities can grant or give money to private entities. Specifically these opinions have said that a county is not authorized to grant money without restriction to a private entity, a county could not grant money to a not-for-profit corporation whose purpose was the promotion of the orderly growth and welfare of a city, and a city could not allow a private entity to use space rent free in a municipally owned building.

5. Seminars

The college has a continuing education work program policy that allows full-time employees to coordinate seminars and workshops at the college for additional compensation. The college compensated employees of the criminal justice and business departments for coordinating seminars during the years ending June 30, 1999 and 1998. The policy provides for coordinators to be compensated fifty percent of revenues after payment of direct expenses and the remaining revenues to be retained by the college. Each coordinator prepares a report indicating the revenues and expenses of each seminar/workshop and the amount of compensation to be received by the coordinator.

A. The Vice President of Lifelong Learning and a criminal justice professor co-coordinated all criminal justice seminars generating profits totaling approximately $79,000 and $96,000 during the years ending June 30, 1999 and 1998, respectively. In addition to their regular salaries, the vice president and the professor together received 50% of these profits for coordinating these seminars. As a result, the vice president received total compensation of $125,522 and $122,301 during 1999 and 1998, respectively. The professor received total compensation of $66,082 and $68,202 during 1999 and 1998, respectively. During our review of the criminal justice seminars we noted the following concerns:

1. Many of the seminar reports prepared by the vice president and the professor did not include all direct expenses of the seminar. As a result, profits were overstated and compensation requested by the vice president and the professor was also overstated. Direct seminar expenses totaling $6,088 which were paid by the college were not reported during the year ending June 30, 1999, resulting in the vice president and the professor receiving overpayments totaling $1,522 each.

2. Seminar fees charged to attendees are determined by the vice president and the professor without any approval or review by someone independent of the seminar coordination duties. As a result, the vice president and the professor play a significant role in determining their own compensation. To ensure the propriety of the fee setting process, seminar fees charged to participants should be approved by someone not involved with other seminar coordination duties.

3. Seminar fees reported by the vice president and the professor could not be verified because adequate documentation was not maintained of the

number of participants and the amounts paid by each participant. Documentation should be retained regarding all aspects of the seminars.

B. Policies and procedures for the continuing education work program were not consistently followed by all departments. The business department did not calculate fees paid to coordinators as the policy specifies. The business department's practices differed from college policy in the areas of applying an overhead rate and the distribution of profits. While coordinators of the business department did not appear to be overcompensated, the college should ensure policies are followed by all departments.

In June 1999, the college's internal auditor conducted an audit of these seminars and identified problems similar to those noted above. As a result, the college is revising their policy.

WE RECOMMEND the MSSC continue reviewing the continuing education work program policies and procedures and ensure the policies and procedures are consistently applied to all departments. The college's policies and procedures should provide for an independent review of seminar reports to ensure they are accurate and complete, approval of seminar fees charged to participants by someone independent of the seminar coordination duties, and documentation to be retained for all seminar details. In addition, the college should seek reimbursement of $1,522 from the vice president and the professor.

AUDITEE'S RESPONSE:

After the College's internal auditor conducted an audit in June of 1999 of the continuing education work program, the College made revisions to its policy. For example, the Vice President of Lifelong Learning/Dean of Technology stopped serving as the Dean of Technology effective July 1, 2000, and since this change, he has no longer received compensation for coordinating continuing education seminar programs. Now the Vice President of Lifelong Learning conducts an independent review of the seminar fees charged to seminar participants.

The College will continue to review the continuing education work program policies and procedures and ensure such policies and procedures are consistently applied to all departments. It will also begin conducting independent reviews of seminar reports to ensure they are accurate and complete and will seek reimbursement from the vice president and the professor mentioned for any overpayments made in the past.

6. Payroll Records and Personnel Policies

A. The college's nepotism policy prohibits employees from supervising members of their immediate family and defines those who are considered immediate family. Exceptions to the policy require approval by the president. An assistant professor of criminal justice is supervised by his father, the Vice President of Lifelong

Learning and Dean of Criminal Justice. The college did not have specific written approval from the President for this policy exception.

In April 1999, the father approved for his son to receive a $1,000 dean's initiative grant for expenses related to an international studies trip. The grant was used for personal expenses that exceeded those provided in the college trip package, such as additional meal and hotel costs. In addition, the son received additional compensation of $8,650 for classroom hours taught during the fall 1999 and spring 2000 semesters that exceeded the terms of his original employment contract. The contract change authorizing the additional classroom hours and additional compensation was signed by the father.

To avoid the appearance of a conflict of interest and any concerns relating to nepotism, which is prohibited by Article VII, Section 6 of the Missouri Constitution, the college should ensure that employees are not supervised by closely related family members.

B. Sixty-eight deans, department heads, and professors received bonuses ranging from $175 to $1,829 each, and totaling $40,250 during the year ended June 30, 1999. Starting in fiscal year 1999, the college annually awards $542 to three employees for outstanding service. Bonuses have historically been awarded annually by the college. These expenditures represent additional payments for services previously rendered and, as such, are in violation of Article III, Section 39, of the Missouri Constitution and Attorney General's Opinion No. 72, 1955 to Pray, which states "...a government agency deriving its power from the Constitution and laws of the state would be prohibited from granting extra compensation in the form of bonuses to public officers after the service has been rendered."

C. The college has entered into seventeen loan agreements with various professors to aid them in obtaining their masters and doctorate degrees. As of December 31, 1999, the unpaid balance of these loans was $210,223. These loan agreements require the professors to teach at the college upon completion of their degrees at an annual salary determined from the College and University Personnel Association Faculty Salary Survey. In addition, these loans are forgiven over the contract period outlined in each loan agreement. Interest is not charged on these faculty loans unless the faculty member defaults on the contract requirements. During our review of these loan agreements, we noted the following concerns:

1. The college has not established written policies and procedures to properly approve these loans. Although employment contracts are approved by the Board of Regents, only the senior vice president approves each loan agreement upon verbal approval from the college president. In addition, loan amounts and terms of the agreements varied among applicants.

2. We noted one faculty loan agreement originally approved in 1991 for a professor to obtain his doctorate. This agreement included provisions for the professor's loan to become due and payable immediately if he ceased to work on the doctorate degree, failed any courses, or failed to progress at a rate which would enable him to complete the course work by the designated date. However, after loaning this professor $78,691 and extending the agreement five times to allow this professor more time to complete his doctorate, the college decided to withhold funds from the professor's pay check to repay the loan.

   As of December 31, 1999, this professor's loan balance was $69,790 and the college was withholding $150 per month from the professor's pay check. At this rate, the professor would need to teach at the college for the next 39 years to repay the loan. In addition, the college has not required this professor to pay interest on this loan as the agreement requires.

Written policies and procedures should be established to properly approve, monitor, and collect loans to professors. In addition, the college should review all current loan agreements for reasonableness.

D. The college faculty personnel manual indicates the faculty teaching load per term is twelve credit hours or the equivalent. Faculty may receive a release for a portion of this requirement for other activities or duties such as department head, dean, recruiting, advising, and coaching; however, the college does not have written guidelines establishing the number of release hours for the various duties. During our audit we noted several instances where the number of released hours varied for similar duties.

   Complete and detailed written policies are necessary to provide guidance to faculty members, to ensure equitable treatment among faculty, and to avoid misunderstandings.

E. The college personnel policy allows two-thirds of the tuition fees to be waived for all full-time employees and their dependents. However, the college allowed all tuition fees to be waived for foreign language classes for all full-time employees. This full tuition waiver was not included in the college's policy. In addition, the college waived two-thirds of tuition fees for a dependent of a member of the Board of Regents, but the policy does not indicate that dependents of the Board of Regents are included.

   The college needs to clarify the tuition fee waiver policy regarding foreign language classes and dependents of the Board of Regents.

<u>WE RECOMMEND</u> the MSSC:

A. Strictly enforce the college's nepotism policy. Furthermore, the college should review all employment that is not in accordance with college policy, including the exceptions noted above, and take appropriate action.

B. Discontinue paying bonuses to college employees.

C. Establish written policies and procedures over loans to faculty, and review all current loan agreements for reasonableness and the effectiveness of collection efforts.

D. Establish written policies outlining the number of release hours given to faculty for various duties and activities.

E. Enforce, and if necessary revise, the tuition fee waiver policy.

<u>AUDITEE'S RESPONSE</u>:

A. The College takes great efforts to ensure that employees are not supervised by closely related family members. In August of 1998, the son of the Vice President of Life Long Learning/Dean of Technology was hired for a one-year non-tenure track position. He was supervised by the Criminal Justice Department Head, Mr. Robert Terry. Mr. Terry reported to the Assistant Dean of Technology, who reported to the Vice-President of Lifelong Learning/Dean of Technology. This created two reporting levels between the son and the father. Oral permission was given by the President for this hire, and he subsequently executed the employment contract.

Dean's initiatives are awarded at the full discretion of each dean. In April 1999, the Vice President of Lifelong Learning/Dean of Technology made six supplemental grants for travel abroad. Five grants were to students totaling $3,000. One was to the Department head for $1,000, and one was to his son who served as faculty chaperone.

The $8,650 received by the dean's son above his original contract amount was for classroom hours taught that exceeded the terms of the son's original employment contract. This additional compensation was paid in accordance with the College's overload policy. Written approvals of such additional compensation were given by the Vice President of Academic Affairs and the Criminal Justice Department Head, in addition to the Vice President of Lifelong Learning/Dean of Technology.

The Vice President of Lifelong Learning no longer serves as Dean of Technology, so any appearance of a conflict of interest has been eliminated. The College fully intends to continue strict enforcement of its nepotism policy.

B. *In the future, the College will discontinue the merit pay system which was approved by the Board of Regents in 1982 for faculty and department heads and will seek external sources of funding for the Superior Service Awards given to staff employees.*

C. *In 1987, the College decided it needed to increase the percent of its faculty with doctorates, particularly in academic areas with high demand for faculty and among female and minority faculty members. Because of the difficulty of recruiting faculty in these areas, it was apparent that a better approach would be to "grow" our own doctorates.*

1. *The College did not establish a written policy because we felt each individual case needed to be evaluated on its own merits. The limited number granted (an average of less than two per year) allowed for such analysis based on the recommendations of department heads, deans and the Academic Vice President. Each recipient signs an individual contract (on a form approved by the College Attorney) which spells out the exact terms and conditions of the agreement.*

2. *The one faculty loan referenced is not in default due to extensions. The current withholding is a voluntary intermediate step agreed to because of the number of extensions. If no further progress is made, when the current extension runs out, the faculty member will be put into repayment terms pursuant to the loan agreement, which will include interest and a shorter amortization period.*

The College will continue to utilize individual contracts to document all loan requirements. We will review all loans for reasonableness and effective collection efforts.

D. *The College has developed a written policy outlining the number of release hours granted to a faculty member to perform various faculty duties, such as serving as dean, department head, or head coach. Faculty members who are assigned administrative duties or given other special assignments will have their reassignment hours noted on their annual contracts.*

E. *The College's tuition fee waiver policy has been revised to state the College's practice of allowing a full tuition waiver for foreign language classes only to full-time faculty and staff. The partial waiver of tuition fees will be discontinued for dependents of the Board of Regents.*

7. Expenditures

A. College purchasing guidelines encourage price comparisons for purchases up to $1,000, require phone bids for purchases between $1,000 and $2,000, require an informal unadvertised bid for purchases between $2,001 and $9,999, and require a formal advertised bid for purchases exceeding $10,000. During our review of expenditures, we noted the following concerns:

1. The college did not solicit bids for consulting services totaling approximately $70,000 and bond counsel services totaling $37,500 during the years ending June 30, 1999 and 1998. In addition, $11,185 was paid for the college's publication of the International Crossroads magazine. The magazine is published at least three times per year. According to college personnel, the college has not bid the magazine publication service for several years.

2. Documentation was not maintained by the college to substantiate situations in which the low bid was not accepted or bids were not obtained due to sole source procurement or emergency situations. Examples of the purchases include computer supplies ($23,411), theatre chairs ($11,154), laser digitizing system ($39,333), and periodicals-electronic ($50,355).

The college's bid policy should be strictly followed. Competitive bidding helps ensure the college receives fair value by contracting with the lowest and best bidders. Bidding also helps ensure that all parties are given an equal opportunity to participate in the college's business. Documentation should be maintained to justify emergency situation purchases, and to substantiate that a company is a sole source provider. In addition, in situations where a bid other than the lowest bid is selected, the reasons for the contract award should be adequately documented and retained.

B. According to the college's records, it paid approximately $18,000, $26,000, and $25,000 during the time period July 1 through December 31, 1999, and the years ending June 30, 1999 and 1998, respectively, for several memberships and dues to professional and business organizations. The college does not have a written policy to limit in any manner the employee memberships and dues that are allowed to be paid from college funds. A written policy would give the college greater control over expenditures and ensure the memberships are beneficial to the college.

C. The college theatre department offers a continuing education class each year for members of the community and students to attend Broadway shows in New York City. The director of the theatre department makes all travel arrangements, acts as a guide, and bills the individuals attending. During the years ending June 30, 1998 and 1999, the theatre director billed the attendees more than the actual trip costs, and used the excess funds to send his secretary and the continuing education secretary on the 1999 trip as a reward for setting up the trip accommodations each year. We computed the cost of the trip for each secretary to be $882. No documentation was maintained to indicate that someone other than the theatre director approved the secretaries' trips and for the cost of these trips to be billed and paid in this manner.

The college should investigate this situation and determine if trip costs paid for each secretary should be refunded back to the college or reported on the employee's Form W-2. In addition, the college should consider refunding trip participants their overpayments and establish controls to monitor any future trips through the theatre department.

D. The college charges a $25 student activity fee each semester for full-time students and $15 for part-time students. During the year ended June 30, 1999, the college collected approximately $168,000 in student activity fees. These fees are to be used to support various aspects of campus life, including student activities, student government, student publications, and various events and services provided by the college to the students.

During the year ending June 30, 1999, the campus activity board sponsored a concert using student activities fees that had accumulated over a two-year period. Prior to selecting a band to perform at the concert, the campus activity board surveyed 800 students (approximately 21% of MSSC's full time student population) to obtain their band preference.

Because of availability and price, board members selected the third most requested band from the survey. Because of the lack of student interest, only approximately 600 tickets were sold yielding revenues of approximately $6,600. The campus activity board expended $11,000 for the band and $8,200 for advertising and concert employees, resulting in a net loss of approximately $12,600.

With over 3,700 full time students, and only 600 tickets sold to the general public and students, it appears less than 16% of full-time students benefited from the concert. Student activity fees should be used for activities and events that can be reasonably expected to benefit or be of interest to a majority of the student population. If this cannot be accomplished, the college should reconsider the assessment of student activity fees. In addition, for any future events, the college should perform a more detailed review of estimated revenues and costs associated with student activities to ensure the college expends the student activity fees in a cost effective manner.

E. Our audit noted some expenditures which did not appear to be a prudent or necessary use of college funds. These expenditures included:

1. The college paid $12,207 and $10,275 in the years ending June 30, 2000 and 1999, respectively, for a formal Christmas ball for employees, the Board of Regents, and retired faculty and Board of Regents members. These expenditures included a band, disc jockey, decorations, invitations, food, and salaries of doormen and coat checkers.

2. Various departments expended college funds to have their own Christmas parties. For example, the women's athletic department paid $600 for party supplies in December 1999.

3. The college paid for birthday, good-bye, and new employee cakes and cookies, Christmas cards and postage, Christmas compact discs, and candles through the petty cash fund for various departments.

It is important that all expenditures be viewed in terms of the critical needs of the college. Expenditures should be evaluated and compared to the overall goals and responsibilities of the college.

F. College purchasing guidelines require that all purchases up to $1,000 are approved by the applicable department head, purchases from $1,000 to $10,000 are to be approved by the applicable dean or director, and purchases greater than $10,000 are to be reviewed and authorized by one of the vice presidents or the president. During our review of expenditures we noted the following concerns:

1. We noted six instances where the $10,000 maximum was circumvented by issuing more than one purchase order to the same vendor. For example, 38 purchase orders totaling $103,335 were issued to the same vendor during October 1997 for faculty computers. While bids were solicited for this purchase, it was not properly approved by a vice president or the president.

2. We noted 49 purchases exceeding $10,000 that were not authorized by a vice-president or the president. For example, crime lab equipment totaling $63,160 was only approved by the crime lab director and the purchasing director.

3. We noted five purchases that were requested, approved, and authorized by the same person. Although these individuals were at a level high enough to authorize these purchases, internal controls should be established to ensure purchases requested by an individual are approved or authorized by someone independent of the requestor.

4. Twenty department heads and four deans have delegated their approval and authorization duties to their secretaries for purchases up to $10,000.

All purchases should be approved in accordance with college policy.

G. The college uses an automated invoice processing system to process bills for payment by the college. To receive payment, vendors must be entered in the system with a vendor number. During our review of the vendor list we noted the following concerns:

1. Several individuals in all departments have the computer capability to add vendors to the purchasing system. This capability could allow unauthorized payments to be processed. Greater controls should be established to ensure only authentic vendors are entered on the payment

system. Ways to enhance controls would be to reduce the number of individuals with the computer capability to add vendor records, and initiate a supervisory review of new vendor codes.

2. The vendor list contained over 45 duplicate vendor names, each with a separate vendor number. Many times the duplicate entry was due to a slight difference in spelling. Deleting duplicate vendor names and inactive vendors would give the college better control over vendor information and would result in a more efficient operation.

H. The Missouri Southern Foundation provides funding to the college and specifically budgets how the funds are to be spent. The college does not have a system in place to ensure funds provided by the foundation are expended in accordance with the foundation's budget. Furthermore, the college does not report to the foundation how the funds were expended, and there is no evidence to indicate that anyone from the college is monitoring monies received from the foundation. During our review of expenditures, we noted foundation funds totaling $29,500 were expended for a business department trip to London, Paris, and Geneva, and recorded as business equipment in the college's financial statement.

The college should ensure foundation funds are spent in accordance with the foundation's budget and record transactions in the appropriate accounts.

I. During our review of capital improvement projects we noted the following concerns:

1. The college expended approximately $550,000 as a result of change orders needed for the construction of the field house. Some of these change orders were incurred due to poor planning. For example, over $20,000 was to relocate offices and locker rooms, over $100,000 was for a different type of bleacher seats, and over $250,000 was to add brick to the outside of the building.

   Change orders are normally used to make adjustments for minor problems that are unknown when construction projects are originally bid. They should not be used to make significant changes to existing contracts. If the scope of a project changes substantially, considerations should be given to rebidding those parts of the project.

2. The Senior Vice President solely performs an evaluation of various architects based on factors such as price and past performance, and selects the architect to design construction. Due to the magnitude of funds spent on design, the Board of Regents should consider selecting a committee to review proposals of architects rather than delegating this authority to one individual.

WE RECOMMEND the MSSC:

A. Ensure purchases of goods or services are properly bid in accordance with established college purchasing polices, and maintain documentation of emergency situations, sole source procurement, and reasons for not selecting the low bid.

B. Establish a policy to address the payment of employee memberships and dues. The policy should cover the number of memberships that will be paid for each employee or establish an annual dollar amount that may be spent by an employee for memberships and dues. It should address the types of memberships that will be paid or reimbursed, limiting such memberships to those which will benefit the college.

C. Establish adequate controls to monitor any future trips through the theatre department, investigate amounts overcharged to attendees and make refunds if necessary. In addition, the college should consider whether any reimbursements should be sought for the exceptions noted above, and ensure that any amounts not recovered by the college are properly reported to the applicable employees for tax purposes.

D. Perform a detailed review of estimated revenues and costs of future activities to ensure student activity fees are expended in a cost effective manner to benefit a majority of the student population. In addition, the college should review the assessment of student activity fees.

E. Ensure all expenditures are a necessary and prudent use of college funds.

F. Authorize all purchases in accordance with college policy and ensure someone independent of the purchase requestor approves and authorizes purchases. In addition, the college should prohibit deans and department heads from delegating their approval and authorization duties.

G. Evaluate the controls over vendor records and consider reducing the number of people with access to these computer records. Vendor files should be periodically reviewed by someone in a supervisory position to ensure duplicate vendors are eliminated.

H. Establish procedures to monitor funds received from the foundation, and ensure that transactions are recorded in the appropriate financial statement accounts.

I.1. Ensure adequate planning is performed to reduce the number of change orders, and, if substantial changes are needed, consideration should be given to rebidding the applicable projects.

2. Establish a capital improvements project committee whose responsibilities would include evaluating and choosing architects for large capital improvement projects.

AUDITEE'S RESPONSE:

A.1. The Crossroads Magazine vendor agreed to continue publishing the Magazine at the original bid price, thus new bids were not solicited. Since a number of years have passed since the original bids were obtained, new bids will be solicited.

The Bond Counsel was recommended by the College Attorney as being the best firm in the state. Of the four consulting contracts reviewed by the auditors, three were short-term agreements with retiring faculty/administrators that were not bid because of the individual's unique qualifications. The Board of Regents has since adopted a policy concerning hiring retirees as consultants. The remaining contract was with the only consulting firm within a 150-mile radius that specialized in Title III grants. Their fee was contingent upon the College's receiving a grant. We did in fact receive a $600,000 grant from the federal government.

The College will seek bids for consultants or document why they are considered "sole source" and not subject to bidding requirements.

2. It is the College's intent to clearly document bids where other than the lowest bidder is selected. We will review and strengthen our procedures as necessary to insure all pertinent vendor selection information is reduced to writing and included in the purchasing files.

B. Upon reviewing a sample of the membership expenditures for the period of July 1, 1999 through December 31, 1999, the majority of the expenditures are for institutional memberships and not individual memberships. Sometimes an invoice is addressed to an individual who is the college representative in the membership. That does not constitute the expenditures as an individual membership. Although the college does not promote the payment of individual memberships, the administration feels it is good business practice to keep the faculty and staff up to date on the latest trends, techniques and ideas through professional memberships.

The College will establish a policy regarding payments of memberships and dues by July 1, 2001.

C. The New York trip organized annually by the theatre department usually has over 50 participants each year for a total cost of about $50,000. Planning begins about nine months prior to each trip. After several years of making trip preparations, there was excess money available after all bills were paid as a result of price fluctuations in hotel accommodations, airfare, restaurant charges, theatre tickets, etc. Because both the theatre department secretary and the continuing education secretary were heavily involved in making preparations for several trips, the excess money was used to help defray the cost of their trip expenses. It was believed that by participating in the New York experience, these secretaries would be more familiar with the trip's details when planning the trip in future years. It was also believed that these secretaries could provide valuable assistance to the theater director during the trip.

While there was no intent to over-bill trip participants, any future excess funds collected will be refunded to trip participants after all bills have been paid. More detailed records of trip income and expenditures will be kept and reviewed by the business office for any future trips. The College will determine if the trip costs paid for each secretary should be refunded back to the College or reported on the employee's Form W-2.

D. *The Campus Activity Board (CAB) is a voluntary student organization which is open to all students who wish to join. They are organized into seven committees that relate to various aspects of student activities.*

The coordinator of Student Activities serves as a faculty/staff advisor. The purpose of CAB is to plan and administer programs that will enrich the student learning experience. Usually the group numbers over 20 students and represents most student groups. The College feels that having a student group making decisions on how to spend student activity fees is entirely appropriate.

With very divergent student needs and wants, to get more than 16% of the students to any event is problematic. The whole reason for the student activity fee is to supplement activities that cannot be self-supporting. To second guess which band might sell more tickets seems beyond our administrative prerogative.

The faculty advisor of CAB, together with the appropriate student committee, will continue to review the cost/benefit relationship of each student activity, recognizing that the primary purpose of these activities is to enrich student life, not to make a profit.

E. *The College, as with any organization, is very concerned about its employees and maintaining good human relations. We consider expenditures in this area to be very necessary.*

1. *The College has consolidated what used to be numerous functions for various employee groups into two major events: the Christmas Ball and the Spring Picnic. We would submit that when the Ball expenditure represents less than 0.03% of total expenditures, it is a good investment in people.*

2. *We agree that the departments should not expend funds on their own Christmas parties.*

3. *Again, good employee relations includes recognizing new employees, exiting employees and employee birthdays. We agree that Christmas cards and other Christmas items should not be purchased with departmental funds.*

The College will continue to monitor all departmental expenditures to ensure they are necessary and prudent.

F.1. *It is the College's policy that a vice president or the President approve individual purchase orders greater than $10,000. The example cited above was primarily for the* *purchase of faculty personal computers from a requirements contract that had been bid. The Assistant Vice President of Information Services initiated or approved most if not all of these purchase orders. Instead of issuing one large purchase order, the Assistant Vice President elected to break the order into smaller orders to facilitate the tracing and processing of the personal computers as they were received. The issuance of multiple purchase orders facilitated processing a large volume of personal computers and did not circumvent the procurement process.*

2. *While the mechanics of the purchase order software system may not explicitly indicate executive approval, no purchases exceeding $10,000 were executed without the involvement and authorization of a vice president or the President.*

3. *It is the College's intent that all purchase orders be approved by someone other than the requestor even in situations where the approver has the requisite authority to complete the transaction. We will review our procedures and implement changes as needed to assure compliance.*

4. *The College will implement procedures by July 1, 2001, to insure that purchasing authority is not inappropriately delegated.*

G.1. *A list of new vendors will be produced and reviewed periodically by someone other than the Accounts Payable Clerk.*

2. *The Accounts Payable Clerk reviews all new vendors on a daily basis. If a purchaser incorrectly creates a duplicate vendor, the Accounts Payable Clerk removes the duplicate vendor and notifies the Purchasing Director that an existing vendor is available for the purchase order.*

Currently, the College has a procedure in place to detect and eliminate duplicate vendors at the time of creation. We will also implement a new procedure by July 1, 2001, that requires someone other than the Accounts Payable clerk to periodically review all new vendors.

H. *The $29,500 received from the Foundation was from the Youngman estate, specifically earmarked for travel costs. In a March 1998 letter from the Senior Vice President to the Youngman Trust administrators, a request was made for additional funds to be used to send students and faculty abroad. This request, as authorized by the College President, is in accordance with Trust provisions, which state the President can spend these funds for the School of Business at his discretion.*

The College accounts for all monies received from the Youngman Trust in one account in each department. Usually these monies are used to purchase needed equipment in the department. Consequently the words 'Youngman Equipment' is in the account title to help identify the source of the funds.

The College will continue to comply with and monitor funding requirements established by the Missouri Southern Foundation, as appropriate. The word 'Equipment' will also be removed from the proper Foundation accounts.

I.1. The planning process for the field house was begun in 1997. Preliminary plans were for a construction budget of approximately $7.2 million. In order to stay within that budget, some decisions had to be made to hold costs down. Among these decisions were minimal brick on the sides of the building and less seating than desired. With the receipt of $390,000 in donations during construction and pledges of $860,000 of future donations (over the Foundation pledge), we were able to re-visit some of those cost cuts made in the original design. Specifically, we were able to increase the seating capacity and add more brick to the sides and brick columns all around the building to enhance its over-all campus appearance. These changes were not due to poor planning, but due to fortuitous gifts.

All change orders go through a rigorous evaluation by the architect, engineers and our physical plant. If any change order amounts are deemed unreasonable, we would either refuse the change order or re-bid, if possible. In this instance, a re-bid of the additional brick was considered. However, preliminary quotations from another mason were higher than the change order amount.

We would submit that total change orders amounting to approximately 7% of the total contract price would not warrant a re-bid process.

The College will continue to plan each project in a careful and prudent manner. All change orders will continue to be evaluated by the architect and engineers. If change orders exceed 10% of the contract price, consideration will be given to re-bidding projects.

2. The evaluation of architects for each project is based on specialized experience and technical competence, capability, past performance and familiarity with the project. Annual statements of qualifications and performance data are reviewed using these criteria. Because of the desirability of maintaining continuity of appearance and the right balance of cost vs. quality, the College has given a great deal of weight to the past performance criterion.

All architectural evaluations will be presented to the Board of Regents for their approval.

8. College Vehicles

The college owns approximately 37 vehicles including ten fleet vehicles, five athletic department vehicles, and twenty-two other vehicles used for maintenance, security, and other college activities. Fleet vehicles are used by college teams, organizations, and employees, and each department's budget is charged mileage for the use of these vehicles. While liability insurance on these vehicles is provided by the State of Missouri, comprehensive and collision insurance must be obtained by the college. Problems noted during our review of college vehicles include:

A. The state's Office of Administration, through a public bid process, contracts for comprehensive and collision insurance coverage each year. State funded institutions, such as MSSC, may utilize the state's contract, or establish their own insurance contracts. The college did not utilize the state insurance contract during the year ending June 30, 1998, and only insured 10 of the 37 vehicles using the state contract during the years ended June 30, 2000 and 1999. The remaining vehicles were insured through a local company who supported the college by purchasing advertising at college sporting events and made a $1,000 contribution to the MSIPC. A college official indicated the vehicle insurance was purchased from this vendor instead of using the state's insurance contract, "to promote local goodwill." The college paid this local company approximately $15,000 in each of the years ending June 30, 2000 and 1999.

   For insurance coverage that was acquired locally, although the college's purchasing policy required bids to be obtained, no bids were solicited by the college. Furthermore, the college spent $10,700 more by using the local insurance company instead of the state contract during the years ending June 30, 2000, 1999, and 1998. Not only did the college not follow their bid policy, but awarding no-bid contracts to significant contributors gives at least the appearance of impropriety.

B. In addition to maintaining 37 college-owned vehicles, the college paid $15,100, $10,700, and $3,500 to car rental companies for vehicle rentals during the period July 1, 1999 to March 1, 2000, and for the years ending June 30, 1999 and 1998, respectively. The college also paid mileage reimbursements to employees for the use of their personal vehicle estimated at $49,000 annually. During our audit we noted the following concerns:

   1. Some college fleet vehicles were available for use during the time period the college rented vehicles, and two college fleet vehicles were driven less than 3,500 miles during the year ending June 30, 1999. Several employees indicated they rented vehicles for travel due to the high mileage and unreliability of the college fleet vehicles.

   2. Rental cars were used in many instances when it would have been more cost effective to use a fleet vehicle or pay the employee mileage for use of their personal vehicle. For example, the college paid $514 for a midsize car rental for 1,452 miles. We calculated the cost to pay personal mileage to an employee to be $407, resulting in $107 that could have been saved by the college.

   The college should review the cost of travel incurred through use of fleet vehicles, vehicle rentals, and mileage paid to employees to evaluate the most cost effective practice. In addition, fleet vehicle usage should be reviewed to determine whether vehicles should be transferred to another area of the college, such as security or maintenance, or sent to surplus property.

C. During our review of vehicle usage we noted the following concerns:

1. Mileage or usage logs which document vehicle usage are not maintained for athletic department vehicles. These mileage logs should include the purpose and destination of each trip, the daily beginning and ending odometer readings, and the operation and maintenance costs. Mileage logs should also be reviewed by a supervisor to ensure all mileage is recorded and that the vehicles are being properly utilized. Information on the logs should be reconciled to fuel purchases and other maintenance charges. Mileage logs are necessary to document appropriate use of the vehicles and to monitor operation and maintenance costs.

2. The majority of car rentals are by the admissions office. The admissions office does not maintain adequate documentation to support each car rental and related travel expenses. Information such as the date of trip, trip origin, destination, expenses incurred, and purpose of trip are necessary to help ensure the propriety of travel expenses.

WE RECOMMEND the MSSC:

A. Solicit bids for any locally acquired vehicle insurance coverage and ensure the lowest and best bid is used for any such coverage.

B. Review the cost of travel incurred through the use of fleet vehicles, vehicle rentals, and mileage paid to employees to determine the most cost effective practice. In addition, fleet vehicle usage should be reviewed to determine whether vehicles should be transferred to another area of the college, such as security or maintenance, or declared surplus and disposed of properly.

C.1. Maintain complete and accurate mileage, usage, and maintenance logs for each vehicle. The logs should be reviewed by a supervisor periodically for completeness and reasonableness.

2. Require adequate documentation to support each car rental and related travel expenses. Information such as trip date, origin, destination, and purpose should be maintained to ensure the propriety of travel expenses.

***AUDITEE'S RESPONSE**:*

A. In 1998, the colleges and universities began having semi-annual meetings to discuss various Risk Management topics. It was at one of these meetings that it was revealed for *the first time, to our knowledge, that colleges and universities could avail themselves of the state contract for vehicle property damage.*

Unlike typical insurance premiums, the premiums under the state contract were a flat amount per vehicle instead of being based on vehicle value. As soon as we became aware of this possibility, we began to shift the highest valued vehicles to the state contract. We will continue to do so until we have achieved maximum cost savings.

It should be noted that the contact with the local company goes back to the junior college days when the Board put a great deal of emphasis on doing business with local vendors. We have continued to do business with them over the years, not due to any contributions (which have occurred only recently) but because they are the largest, most comprehensive insurance agency in the county. For FY 2000, the automobile policy with the local agency cost $5,978. Of that, $3,300 was for vehicles that we did not elect to put under the state contract because of the need for liability insurance on one and the fact that the others are "loaners" from local dealers which may turn over every month. Of the remaining amount, we actually saved money on two vehicles.

The College will continue to shift vehicles to the state policy as practicable and will use the lowest and best bid for local coverage.

B.1. *The College now has two vehicles in its campus rental fleet. Three other rental fleet vehicles have been transferred to the campus service fleet.*

2. *Because of the significant cost to purchase and maintain campus rental fleet vehicles, the College will not replace the remaining two rental fleet vehicles when they reach the end of their useful lives. College employees will have the option of utilizing a negotiated agreement with a local rental car company or utilizing their personal vehicle. However, the Missouri Division of Risk Management has informed us that the State's insurance coverage does not cover losses to employees' personal vehicles. The burden of loss would be on the employees' personal insurance carrier should they have an accident while conducting College business. While some College employees may elect to assume this risk, we feel it is inappropriate to require them to do so and thus will encourage employees to utilize our external rental car agreement.*

The College is implementing a vehicle use policy that will phase out the use of internal rental cars and result primarily in the use of externally provided rental cars. As the remaining two College fleet cars reach the end of their useful lives, they will be transferred to the internal service fleet or surplused.

C.1. *It is College policy that athletic department vehicles be used only for College business. We will implement mileage and usage logs to substantiate their use.*

2. *The Director of Enrollment Services along with the Admissions Office maintains documentation to support the admissions office recruiting trips. This documentation includes date, destination, hotel costs, purpose, etc. The car rentals are the lesser of a* *flat daily or weekly rate; therefore, the vehicle expenses for any trip can be determined by the number of days on the trips. This documentation was not retained after the Director's review, however the reports will be maintained in the future.*

The Director of Admissions selectively compares rental car billings with admission counselor travel calendars to substantiate car billings. To further enhance this control, the Director of Admissions will now include with rental car invoices documentation of counselor destinations. The Admissions Office will continue to maintain adequate documentation to substantiate travel expense.

AUDITOR'S COMMENT:

A. Of the $3,300 referred to in the college's response, $2,463 was paid to the local insurance company for vehicles on loan from auto dealers and $837 was paid for insurance coverage on the vehicle provided to the College President. Had the college elected to insure the vehicles on loan through the state contract, their cost would have only been $735, a savings of $1,728. The vehicle provided to the College President is not eligible for insurance under the state contract because of the personal use of this vehicle by the president, and therefore was not included in our computation of the $10,700. In addition, the college indicates in their response that they saved money on two vehicles by not using the state contract. The total amount saved on these two vehicles was only $30 and was included in our computation of the $10,700.

9. Cellular Phones

For the period July 1, 1999 to December 31, 1999, and for the years ended June 30, 1999 and 1998, the college expended approximately $9,800, $15,600, and $11,000, respectively, for cellular phone usage from two separate companies. The college has separate usage packages for each of its thirty-five cellular phones. Monthly fees range from $15 to $100, which include free minutes ranging from 0 to 600. During our review of cellular phone usage, we noted the following concerns:

A. Although college purchasing guidelines require competitive bids for purchases over $1,000, the college has not solicited bids for its cellular phone service. Purchasing policies should be followed to ensure services are purchased at the lowest and best price. Competitive bidding helps ensure that all vendors are given an equal opportunity to participate in college business.

B. The college has not developed a formal written policy regarding cellular phone usage, or guidelines to determine whether a cellular phone is needed or of benefit to the college. Currently, college departments are allowed to contact cellular phone companies to set up their own accounts and obtain cell phones without any review or approval from other college fiscal or management personnel.

C. The college has a contract with a cellular phone company which provides for the monthly fee and the first 60 minutes of air time to be waived on ten phones used by the athletic department; however, monthly fees totaling $497 were charged to the college in November and December, 1999 for these phones. These monthly fees were not credited to the college's account until February 2000, after we brought this matter to the attention of the cellular phone company. Without adequately monitoring cell phone usage and fees, the college could continue to be overcharged for cell phone usage in the future.

D. The college allows personal use of cellular phones, with the costs related to this usage to be reimbursed to the college. A review of this situation disclosed the following concerns:

1. We reviewed all cellular phone bills for November 1999 and noted that only the bills for the admission office included documentation that the bill had been reviewed by the user. The monthly cellular phone bills for other office or departments totaling over $450 were paid by the college without being properly reviewed and approved for payment.

   Several of these bills included numerous calls to the applicable employee's home phone number. Calls were also made on weekends and other times outside the employee's regular work schedule. While some of these calls may have been for college business, there was no documentation maintained to support this usage.

2. In November 1999, an admission's office employee made excessive personal calls totaling $297, and subsequently reimbursed the college. Since the personal usage of cellular phones does not provide any clear benefit to the college, consideration should be given to prohibiting such use except in cases of emergency.

E. Many phone packages reviewed appeared to be inefficient for the user. One phone package provided for 600 free minutes of usage. However, we noted that charges for this phone routinely exceeded the 600 minutes of free usage by a significant amount. During the period June through November 1999, we noted that additional minutes charged to this phone ranged from 288 to 719 minutes per month with the additional costs averaging over $125 per month. The amount of billed usage was sometimes more than the monthly fee. It should be noted that some of this phone usage was for personal business. If this amount of usage is necessary and proper, the college should consider obtaining a more efficient contract for this individual.

While cellular phones can help increase employee productivity, they are also costly. A formal written policy should be developed regarding cellular phones. This policy should establish a monitoring system for the assignment, usage, and acquisition of cellular phones to ensure cellular phones are acquired only by allowable personnel, and properly used for business purposes. In this policy, the college should consider prohibiting the personal use of the cellular phones, except in cases of emergency. In addition, proper internal controls require that expenditures are reviewed and authorized before payment.

WE RECOMMEND the MSSC bid their cellular phone service and develop a formal written policy regarding the use of cellular phones, including a provision prohibiting their use for personal reasons. In addition, the college should establish a monitoring system for the assignment, usage, and acquisition of cellular phones, and phone bills should be reviewed and authorized before payment.

AUDITEE'S RESPONSE:

Originally each department set up their own arrangements because departmental expenditures were typically very small. The use of cellular phones for College business has increased in recent years and merits development of a formal written policy. We have initiated a cell phone usage project that will culminate with the development of a written campus policy for cellular phone usage by July 1, 2001.

10. Credit Cards

A. The college has 15 American Express credit cards that are issued to various college deans, vice presidents, and employees of the admissions department. The corporate credit cards are acquired through the college to waive the annual fee. The credit cards are used by these individuals for both college and personal business. During our review of American Express credit card billings, we noted that adequate supporting documentation was not always retained for some credit card purchases. For example, invoices were not retained for some hotel expenses. All expenditures should be supported by paid receipts or vendor invoices to ensure the obligations were actually incurred and the expenditures represent appropriate uses of college funds.

B. In February 1999, the college started using procurement cards for various small purchases and travel related expenses. The procurement card is an official state issued VISA credit card and is designed to replace the manual purchase order for small purchases. The procurement cards have individual transaction limits of $500 to $1,000, and monthly cycle limits of $1,000 to $5,000. We noted the following concerns during our review of procurement cards:

1. Procurement card purchases are not always reviewed and approved by someone other than the credit card holder. For example:

    - Several credit card holders such as various college deans and directors approve their own billings. Internal controls should be establish to ensure billings are approved or authorized by someone independent of the credit card holder.

- As noted above, the procurement cards carry transaction limits up to $1,000 to provide the college an avenue to control employee purchases. However, we noted two instances where one employee made two purchases totaling over $1,000 within a few minutes of each other that were split to circumvent the transaction limit of the procurement card. Since these transactions were not reviewed and approved by someone other than the cardholder, the employee circumvented the procurement card transaction limit and the college's bidding policy without detection by the college.

2. Adequate supporting documentation was not maintained for many procurement card purchases. In several instances no supporting documentation or only the signed credit card charge slip was submitted to the college by the employee. All expenditures should be supported by paid receipts or vendor invoices to ensure the obligations were actually incurred and the expenditures represent appropriate uses of college funds.

WE RECOMMEND the MSSC:

A. Ensure adequate supporting documentation is retained for all credit card purchases.

B.1. Ensure that all procurement purchases are properly reviewed and authorized by someone independent of the credit card holder.

2. Ensure adequate supporting documentation is retained for all expenditures.

AUDITEE'S RESPONSE:

A. College policy requires detailed invoices or receipts for all travel expenses that exceed $10.00 regardless of method of payment. A policy memorandum issued by the Treasurer on August 28, 2000 reminded the campus of the need to submit detailed support for expenditures in excess of $10.00. We will take appropriate action to ensure compliance with College policy.

B.1. Procurement card logs require supervisory approval prior to processing. Cardholders who submit a log without appropriate approval are contacted and required to obtain supervisory approval. While there may be some instances where exceptions are made to this policy, future exceptions will be documented.

2. Procurement cardholders will be reminded that detailed receipts are necessary to support transactions.

11. Advertising and Ticket Sales

A. The athletic department contracts with local businesses to provide advertising at sporting events in exchange for services.

The college does not adequately track these exchanges to ensure the services are received. For example, the athletic department contracted with a local TV station to receive $7,400 of airtime in exchange for advertising at college athletic events. The athletic department did not maintain documentation from the local TV station to ensure the college received $7,400 of airtime. In addition, the college does not record revenues or expenses related to these exchanges on their general ledger as recommended in a 1996 audit of the MSSC's National Collegiate Athletic Association.

The college should maintain documentation of exchanges to ensure the college receives the contracted benefit, and the value of exchanges should be recorded as revenues and expenditures in the college's financial statements.

B. The college prepares a marketing book that outlines the cost for advertising at sporting events. Although the marketing book does not provide for discounts on the cost of advertising, discounts as high as $2,700 were allowed to some vendors.

To ensure amounts are properly charged and collected for advertising, the college should ensure amounts are charged in accordance with their marketing book, review packages and prices for any needed and unrecorded changes, and update the marketing book.

C. The college sells advance tickets to various campus activities and other attractions through their box office and also sells tickets at athletic events. The box office periodically prepares a log of ticket sales and the athletic department prepares a ticket sales summary after each athletic event. The box office and athletic department transmit collections to the business office. During our review of ticket sale records we noted the following concerns:

1. The composition of monies received is not indicated on the log of ticket sales or on the ticket sales summary prepared by the box office and athletic department, respectively. In addition, the log of ticket sales prepared by the box office is not reviewed and approved by someone independent of the box office.

   To ensure receipts are transmitted intact to the business office, the method of payment should be indicated on the sales reports prepared by the box office and the athletic department. The composition of these reports should be reconciled to the composition of amounts transmitted to the business office, and an independent review should be performed.

2. Receipts are not transmitted to the business office in a timely manner. The box office manager indicated receipts are held and transmitted to the business office when they accumulate approximately $400 to $500. For example, we performed a cash count on January 24, 2000 containing receipts totaling $513 that were not subsequently transmitted to the business office until February 1, 2000. To adequately safeguard receipts and reduce the risk of loss, theft, or misuse of funds, all receipts should be deposited intact daily or when accumulated receipts exceed $100.

3. The college purchased a ticket machine to print their own tickets for various campus activities (excluding basketball games). These tickets are not pre-numbered. In addition, tickets for basketball games are pre-numbered; however, the numerical sequence of tickets sold is not accounted for properly. To ensure the accountability of tickets and the receipts derived from sales, tickets should be pre-numbered and the numerical sequence of the tickets should be accounted for fully.

WE RECOMMEND the MSSC:

A. Record revenues and expenses related to exchanges of services on the college's financial statements. In addition, the college should maintain documentation of exchanges to ensure they receive the contracted benefit.

B. Ensure advertisers are charged in accordance with the marketing book, review packages and prices for any necessary changes, and update the marketing book.

C. Ensure an independent review of all sales reports is performed, the method of payment is recorded on the sales reports, and the composition of amounts received is reconciled to the composition of amounts transmitted to the business office. In addition, receipts should be transmitted to the business office daily or when accumulated receipts exceed $100, and tickets printed by the college should be pre-numbered and the numerical sequence of all tickets should be properly accounted for.

AUDITEE'S RESPONSE:

A. In an exchange for services agreement, the College relies on the vendors to provide documents to verify the cost of their services exchanged for MSSC advertising at sporting events. Effective July 1, 2000 the college's athletic marketing director is maintaining affidavits from the local TV station, which is exchanged for advertising. These statements state the value of services exchanged to ensure that the total amount of service received is accurate.

The college is in the process of developing documents to be used for all exchanges after June 30, 2001, that will be authorized by both parties in an exchange. This form will be used every time a portion of the service is exhausted.

For the year ended June 30, 2000, the college recorded revenues and expenses related to exchanges in their general ledger and financial statements.

The college will continue to document revenues and expenses related to exchanges for services on the financial statements. The college will develop documents and procedures to monitor exchange for service contracts after June 30, 2001, to ensure the accurate receipt of contracted benefits.

B. *The marketing book maintained by the athletic marketing director contains ideal costs for advertising. If the director is pursuing a customer regarding advertising, first-time, one-time discounts might be granted in order to obtain their business. These discounts are strictly incentives to become advertisers at the athletic events. Once an advertiser has agreed to terms with the marketing director, a contract is signed by both parties reflecting the cost of advertising. The college charges and collects for advertising based on the contract and not the marketing book.*

The marketing book has been updated and contracts will continue to be monitored by the Athletic Facilities Operations Coordinator to ensure advertisers are being charged properly. Reasons for deviations from suggested fees will be documented.

C.1. *The box office and the athletic department will begin using a new ticket sales summary beginning January 1,2001. The summary sheet will have a breakdown of the method of payment received by each office. All summary sheets are reviewed by the business office for accuracy.*

2. *Effective July 1, 2000, the box office manager deposits all monies on a daily basis. Although in some cases the deposit made is minimal, the administration feels the daily deposit of receipts is essential to safeguarding the college's funds.*

3. *Beginning with the Fall 2001 season all tickets for basketball and football will be pre-numbered. The athletic facilities operations coordinator will develop a form and procedures to properly account for all tickets sold in comparison to the revenues deposited.*

Daily deposits along with sales reports reflecting monies will continue to be made to and reviewed by the business office. Tickets will be pre-numbered for athletic events beginning with the Fall 2001 season and will be reconciled to the deposits.

12. Accounting Procedures and Controls

A. The college has an internal audit function. Under the current organization structure the internal auditor reports to the budget director.

The Association of College and University Auditors recommends that "internal audit departments should report directly to the institution's governing board through the audit committee, consistent with the standards set by the American Institute of Certified Public Accountants, Institute of Internal Auditors, the General Accounting Office, and the Governmental Accounting Standards Board."

Direct communication with the Board of Regents would help ensure independence and provide a means whereby the Board of Regents can be kept abreast of current activities. In addition, such a reporting structure would permit the Board of Regents to request the internal auditor perform specific audits.

B. Monies received through the mail by the business office are opened by the treasurer, the senior accountant, or the head cashier. These individuals also handle and maintain cash records and prepare the deposits and bank reconciliations. In addition, the mail receipts are not logged or recorded as the mail is opened.

To adequately safeguard receipts and reduce the risk of loss, theft or misuse of funds, someone independent of the cash accounting functions should open the mail. In addition, all mail receipts should be logged or recorded upon receipt and then reconciled to daily deposits to ensure all receipts are recorded and deposited.

C. The college stores undistributed payroll checks, safe deposit box keys, cash advances for college events, and receipts collected after the daily deposit is made in a safe which is left unlocked throughout the day. All business office employees have access to the safe. To adequately safeguard against loss or misuse of funds, access to the safe should be limited.

D. The college has not established written policies and procedures for the types of investments and bank accounts that are necessary and appropriate for the college. The college's balance sheet for June 30, 1999 shows cash balances totaling $2.7 million, which were deposited into interest-bearing checking accounts and certificates of deposit. The college should establish policies and procedures for the appropriate types of investments and bank deposits that meet the colleges needs while maximizing interest earnings.

E. The college maintains a $1,100 imprest petty cash fund. Petty cash expenditures for the years ending June 30, 1999 and 1998, were $18,071 and $10,067, respectively.

The college does not have a written policy for employees to be reimbursed from petty cash for business related purchases made from personal funds. The college treasurer indicated the college has a verbal policy that allows employees to be reimbursed for purchases of $20 or less through the petty cash system, and any purchases over $20 are to be approved by the treasurer and the applicable department head prior to reimbursement.

We noted numerous petty cash reimbursements over the $20 limit that were not approved by the treasurer or a department head. In addition, we noted instances where purchases were intentionally split to circumvent the $20 approval requirement. For example, ink cartridges were purchased from an office supply store on three different sales receipts totaling $67 at the same time on the same day.

The college should establish a formal written policy regarding reimbursement for business related expenditures from personal funds through the petty cash system. A written policy would provide guidance to employees seeking reimbursement and a tool for the business office to monitor transactions.

F. The college has a policy that allows faculty and staff to cash personal checks from daily cash receipts. Cashing personal checks from daily cash receipts is a poor practice and reduces the accountability for monies received. This practice should be discontinued immediately.

WE RECOMMEND the MSSC:

A. Require the internal auditor to report directly to the Board of Regents.

B. Ensure someone independent of the cash accounting functions opens mail receipts and prepares a log of mail receipts. The log of mail receipts should be reconciled to daily deposits.

C. Limit access to the safe or, if this not possible, keep the safe locked at all times.

D. Establish written policies and procedures for the types of investments and bank accounts that meet the needs of the college.

E. Establish and enforce a formal written policy regarding reimbursement for business related expenditures from personal funds through the petty cash system.

F. Discontinue the practice of cashing personal checks for faculty and staff.

AUDITEE'S RESPONSE:

A. The College's internal audit function is only part of one individual's job responsibilities. Due to a small staff size, our accountants perform more than one function. This individual also helps with bookstore and warehouse inventories and accounting.

It was reasoned that if the internal audit function reported to someone other than the Treasurer, the internal audit function would be independent for financial audit purposes. We think we can accomplish the purpose of direct communication with the Board by sending copies of all audit projects direct from the internal auditor to the Board and *making the Board aware that they can request projects by direct communication with the internal auditor.*

Because of multiple job functions, the internal auditor will continue to report to the Director of Budget but will receive requests from and send reports directly to the Board.

B. *The treasurer, senior accountant or cash receipts clerk opens all of the business office mail upon receipt and distributes mail to the appropriate individuals, but retains checks for restrictive endorsement and deposit. Due to the volume of student fee payments received and the limited personnel in the business office, the logging of the student accounts receivable mail receipts is not feasible. All other mail receipts are recorded on a daily cash receipt log which is balanced and reconciled to the bank deposits and general ledger on a daily basis. Someone independent of the cash receipt function always prepares the daily deposits. Again, due to the limitation of personnel in the business office, the complete segregation of certain duties remains difficult when employees must perform multiple functions.*

The College will continue to open all mail receipts by someone other than the cashier. The cash receipts listing will continue to be reconciled to the daily deposit.

C. *All undistributed payroll checks, safe deposit box keys, cash advances and undeposited receipts are now maintained in a locked safe in the business office vault. All business office employees have access to the vault which is also used as a storage facility. The access to the vault is limited to just business office personnel which need access to its contents on a daily basis.*

The safe in the business office will be locked at all times when not in use and access to the vault will continue to be limited.

D. *The college has established investments and bank accounts in accordance with §30.260 RSMo 1994. Although a formal written policy has not been prepared, all bank accounts and investment selections are handled in accordance with state statutes. All bank accounts are properly bid and reflect competitive interest rates. On the rare occasion that excess funds exist, competitive bids are received for short-term investments. The $2.7 million, June 30, 1999 cash balance reflects idle funds available to pay upcoming payroll and expenditures. The interest bearing bank account rate reflects a higher interest rate than that of 90-day Treasury bills.*

The College will establish written policies and procedures by July 1, 2001, for maintaining college funds through investments and bank accounts.

E. *The college maintains a petty cash fund to eliminate costly check preparation for minimal reimbursable business related purchases. The limit on petty cash reimbursements was set at $20 many years ago when the fund was established. Inflation has caused the limit to be increasing difficult to maintain. Although the assumed limit is $20, occasionally* *reimbursements have been made for larger amounts. Those excessive reimbursements need to be approved by the treasurer and/or the department head.*

The College will establish a formal written petty cash policy by July 1, 2001, and review the possibility of increasing the petty cash limit and the practice of cashing personal checks through the daily receipts.

F. Personal checks have been allowed to be cashed out of daily receipts. The administration has felt this practice is a service to the faculty and staff. All monies received or disbursed from daily receipts are properly accounted for and reconciled to daily deposits.

The College will review its practice of cashing personal checks.

13. Fixed Assets

The college's balance sheet for June 30, 1999 shows an investment in equipment, furniture, and telecommunications equipment of over $14 million. Our review of the fixed asset records and related procedures noted the following concerns:

A. Fixed asset purchases from the expenditure records are not always reconciled to additions from the inventory records. As a result, fixed asset purchases totaling more than $652,000 were not included on the inventory records. These included:

Item	Amount
Crime lab equipment	$145,610
Athletic equipment	134,260
Dental equipment	102,745
Maintenance equipment	98,278
Rotating scoreboard and ad panels	50,905
Fire arms training equipment	44,000
Computer equipment and furniture	33,683
Theatre equipment	16,635
Broadcast equipment	15,317
Lifelong learning equipment	10,680
Total	$652,113

In addition, the college does not maintain property records in a manner that balances can be reconciled from period to period. That is, records are not such that the beginning balance, plus additions, less dispositions, equals the ending balance. A list of additions and deletions for each year is also not maintained.

B. A physical inventory of the fixed assets of the college has not been performed since January 1998. Annual physical inventories are necessary to ensure the accuracy of fixed asset records and to detect the loss, theft, or misuse of assets.

C. Various items were not properly tagged as property of the college, and the fixed asset records do not always include complete and accurate information. For example, tag numbers on some items did not agree to the tag number in the inventory records, and some equipment was tagged but not included on the inventory records. In addition, the historical cost, acquisition date, model, and serial number, if applicable, were not always identified in the inventory records.

Fixed assets represent a significant investment of college funds and should be adequately safeguarded from loss or theft. Fixed asset records provide information needed by the college for financial reporting and control purposes. Failure to maintain accurate fixed asset records or to properly account for fixed asset items increases the likelihood that assets may be lost, stolen, or incorrectly valued. In addition, the fixed asset records should include identification number; description of the item including the name, make, model, and serial number, where appropriate; acquisition cost; date of acquisition; estimated useful life at the date of acquisition; physical location; and method and date of disposition, if applicable.

WE RECOMMEND the MSSC:

A. Ensure reconciliations are performed between expenditure records and additions made to the fixed asset records. In addition, fixed asset records should be maintained in a manner that balances can be reconciled from period to period, and a list of additions and deletions should be maintained.

B. Conduct a physical inventory of all fixed assets on an annual basis and reconcile the results of the inventory to the detailed property records.

C. Ensure all fixed assets are properly tagged and recorded on the detailed property records. In addition, the college should ensure property records include a detailed description of each fixed asset.

AUDITEE'S RESPONSE:

A. The College reconciles monthly asset purchases to the detailed fixed asset database. We also remove from that database assets that are surplused. We recognize the need to implement a standard format to document our reconciliations.

We have determined that several groups of assets purchased in connection with capital projects have not been recorded in the detailed asset records. We have revised our monthly procedures to capture future purchases of capital project fixed assets and will update our database to include assets that were omitted. We have also recently purchased a more robust fixed asset database product that has reporting features to *support monthly and annual fixed asset reconciliation between the General Ledger and the detailed asset records.*

B. *In 1997, the College began a building-by-building inventory of fixed assets. Data entry of the results of this inventory were concluded in June 2000. At June 30, 2000, this database contains in excess of 22,000 fixed asset records.*

In July 2000, the State of Missouri allowed the threshold for capitalizing fixed assets to increase from $250 to $1,000. We have adopted this capitalization threshold and are presently in the process of revising our database accordingly. Appropriate accounting entries will be made in June 2001 to reconcile the General Ledger with the detailed database.

C. *The process of performing a complete campus inventory and updating the database has taken considerable time. In connection with adoption of the new asset threshold discussed in B above, the College will embark upon a project to remove tags from non-qualifying assets and verify that all qualifying assets are appropriately tagged and included in the database. We anticipate this project will be completed in FY 2002.*

14. Vendor Refunds and Payments

During our audit of Missouri Southern State College, college officials became aware of discrepancies within the accounts payable process. A separate report issued by the State Auditor's office on July 27, 2000, concluded that at least $22,190 was misappropriated. Subsequent to our report, a former accounts payable clerk of the college was charged with stealing. The clerk pled guilty and was placed on five years probation and required to repay the college within two years. Recommendations concerning internal controls and accounting records related to this misappropriation were included in that report and are not included in this report.

AUDITEE'S RESPONSE:

The College will be reimbursed for misappropriated funds as part of a plea bargain by the former employee, or from the insurance company that carries the bond for state employees.

This report is intended for the information of the management of Missouri Southern State College and other applicable government officials. However, this report is a matter of public record and its distribution is not limited.

STATISTICAL SECTION

History, Organization, and
Statistical Information

MISSOURI SOUTHERN STATE COLLEGE
HISTORY, ORGANIZATION, AND STATISTICAL INFORMATION

Missouri Southern State College, located in Joplin, Missouri, traces its origin back to 1937, when it was founded by the Joplin Public Schools as a junior college.

In the spring of 1938, voters approved a bond proposal to support the junior college. In 1964, the citizens created a Jasper County Junior College District with a governing Board of Trustees. The following year, the Missouri General Assembly established a two-year senior college to be funded by the state.

In August 1967, students gathered for the first time on the new campus built on the site of Mission Hills Farm. The dual funding arrangement with the state continued until July 1, 1977, when the State of Missouri officially took on the responsibility of funding the entire college.

In June 1990, the college announced plans to pursue the expansion of the College's mission to incorporate an international emphasis in all its academic and special programs. In 1995, the Missouri General Assembly approved House Bill 442, directing the institution to "develop such academic support programs and public service activities it deems necessary and appropriate to establish international or global education as a distinctive theme of its mission." The following year the Legislature began phasing in increased appropriations to help Missouri Southern expand their international programs.

In the fall of 1999 and 1998, the College's full-time equivalent student enrollment was 4,307 and 4,250, respectively.

Missouri Southern State College is governed by a six-member Board of Regents appointed by the Governor and confirmed by the Senate. Regents are appointed to six-year terms. A student member, with non-voting privileges also serves on the Board.

The Board of Regents as of December 31, 1999, consisted of the following members:

Name	Position	Term Ends
Carolyn B. Phelps	Chairperson	June 30, 2000*
Stephen P. Carlton	Member	June 30, 2005
Robert Lamb	Member	June 30, 1998**
Loretta M. Wilcox	Member	June 30, 2002
Glen D. Wilson	Member	June 30, 2003
Jane Wyman	Member	June 30, 2001*
Christin Mathis	Student Representative	December 31, 1999***

* Jane Wyman was elected by the board to serve as chairperson in July 2000.
** This regent served on the board until Dr. Charles McGinty was appointed in April 2000.
*** This student representative position was filled by Brett Doenning with a term ending December 31, 2001.

The Board of Regents appoints a President to serve as the College's Chief Executive Officer. Three Vice Presidents have been appointed to oversee Business Affairs, Academic Affairs, and Lifelong Learning. The following schedule lists the annual compensation reported for these college officials as of December 31, 1999:

Name	Position		Base Salary	
Dr. Julio S. Leon	President	$	127,790	(1)
Dr. John W. Tiede	Senior Vice President of Business Affairs		102,996	
Dr. Eric J. Bitterbaum	Vice President of Academic Affairs		91,640	(2)
Dr. Jack G. Spurlin	Vic President of Lifelong Learning		92,920	(3)

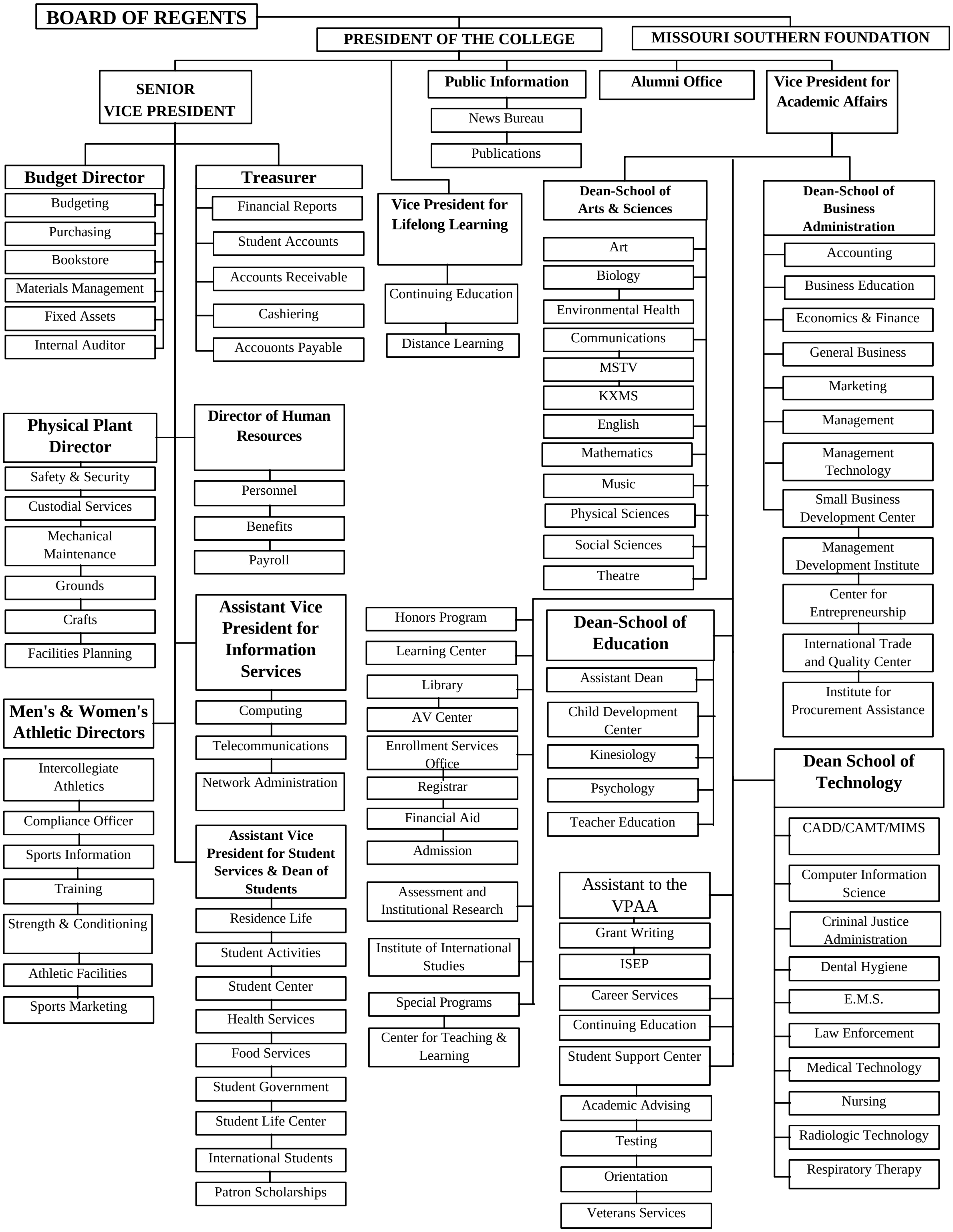
(1) In addition to the base salary, the President's contract provides for the President to be paid $7,500 a year for deferred compensation and $12,500 a year for a housing allowance. The College also provides the President an automobile, life insurance, health insurance, disability benefits, his spouse's traveling expenses incurred on college trips, memberships to two local country clubs, and expenses related to an annual physical. The college purchased a $1.5 million life insurance policy of which the President's family as beneficiaries are recipients of $1 million.

(2) The Vice President of Academic Affairs resigned and Dr. Larry Martin was promoted in July 2000.

(3) In addition to the base salary, the Vice President of Lifelong Learning's contract provides for him to be paid fees for coordinating Criminal Justice Seminars ($19,401), and additional compensation for teaching classes ($13,200).

An organization chart follows:

Missouri Southern State College
Organization Chart
December 31, 1999



* * * * *