AUDIT REPORT

MISSOURI WESTERN STATE COLLEGE

From The Office Of State Auditor
Claire McCaskill

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March 18, 2004
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Office Of The
State Auditor Of Missouri
Claire McCaskill

March 2004

YELLOW SHEET

The following problems were discovered as a result of an audit conducted by our office of the Missouri Western State College.

Missouri Western State College (MWSC) needs to improve the oversight and management of its construction projects. The college completed 15 construction projects costing approximately $14.6 million during the two years ended June 30, 2002. The cost of several of the construction contracts was significantly increased through change orders, including $446,000 as a result of eight change orders for additions and renovation of the student union building, $246,000 as a result of 57 change orders for the renovation of 106 classrooms in 5 buildings, and $15,000 as a result of four change orders for sidewalk repair and construction. Many of the construction change orders were for work that was not included in the scope of the original project. If the scope of the project changes substantially, considerations should be given to re-bidding those parts of the project.

Our office reviewed nine construction expenditures made from August 2000 to February 2002, totaling approximately $596,000, for various construction projects and noted that none of the expenditures were properly reviewed and approved. The college's private architect certified the work for five of these expenditures, totaling approximately $334,000, and the Director of the Physical Plant accepted the work for the other four expenditures, totaling approximately $262,000. However, there was no indication that the Vice President of Administration reviewed or approved these payments. Additionally, the college's private architect sometimes bids and/or partners with other firms on projects when he has prepared the request for proposals (RFP) for the project. At a minimum, this situation gives the appearance of a conflict of interest.

College officials could not locate contracts and/or RFPs signed by both the college and contractor for 12 construction projects, with original bids totaling approximately $12.9 million. Also, 60 change orders, totaling approximately $260,000, on 6 projects were not in the project files. For these change orders, neither the college nor the construction companies could provide documentation of approval for 49 change orders, totaling over $185,000.

The college awarded "merit pay" in the form of lump sum payments totaling $146,575, $163,740, and $164,358 in fiscal years 2003, 2002, and 2001, respectively. The merit pay program appears to represent additional compensation in the form of a bonus, and, as such, is in violation of the Missouri Constitution.

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College records indicate expenditures, excluding personal service costs, totaled nearly $16 million in fiscal year 2002. The college did not always follow purchasing guidelines for obtaining bids and advertising for services and supporting documentation for the college's business-related expenses is not always adequate. Additionally, college officials usually approve their own expenses.

MWSC participates in the A+ Schools Program (A+ Program). State law provides for the "reimbursement of the costs of tuition, books, and fees to any public community college or vocational or technical school" for eligible students. Since MWSC is not a community college, the college entered into an agreement with the local vocational technical school (Hillyard) whereby students would be enrolled at Hillyard and could attend classes at MWSC; however, it appears the A+ students are students at MWSC. The legislature should evaluate participation in the A+ program statewide to be certain its implementation is following the intent of the legislation.

Hillyard requests the A+ reimbursements because the Department of Elementary and Secondary Education (DESE) has identified Hillyard as an eligible institution for the A+ Program. Since fall 2000 through spring 2003, DESE has paid Hillyard approximately $1,567,000. In turn, Hillyard has paid MWSC approximately $1,425,000 for the A+ student's tuition, books, and fees assessed by the college and has retained approximately $142,000 as their fee.

The college owns 40 vehicles and additionally paid approximately $58,500, $54,500 and $84,700 to car rental companies for vehicle rentals for the years ended June 30, 2003, 2002, and 2001, respectively, which include annual leases for security vehicles, police vehicles and vehicles for the admission office. Also, the college paid mileage reimbursements, totaling over $212,000, to employees for the use of their personal vehicles for the three fiscal years ended June 30, 2003. The college needs to perform a cost-benefit analysis of travel costs to evaluate the most cost-effective method of furnishing vehicles for college related business.

MWSC subsidizes some operating expenses of the Missouri Western State College Foundation (Foundation) and the Western Alumni Association (Association). The college paid the salary and fringe benefits, totaling over $140,000 annually, for two of the Foundation executive positions. In addition, the college's practice is to pay approximately $9,700 of operating expenses each year for the Association, and in June 2001, the college donated $10,000 to the Association for homecoming expenses. This practice does not appear to be appropriate and may violate provisions of the Missouri Constitution.

The audit also includes some matters related to cellular phones, controls over receipts, sunshine law compliance, capital assets, and computer controls upon which the college should take appropriate corrective action.

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MISSOURI WESTERN STATE COLLEGE

TABLE OF CONTENTS

STATE AUDITOR'S REPORT

CLAIRE C. McCASKILL
Missouri State Auditor

Honorable Bob Holden, Governor
and
Board of Regents
and
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We have audited the Missouri Western State College. The scope of this audit included, but was not necessarily limited to, the years ended June 30, 2002 and 2001. The objectives of this audit were to:

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

2. Review and evaluate expenditures of the college as well as purchasing practices and procedures.

3. Review and evaluate certain personnel practices and procedures.

4. Reviewed selected records and activities of the college's Foundation and Alumni Association.

Our audit was conducted in accordance with applicable standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and included such procedures as we considered necessary in the circumstances. The Board of Regents had engaged Baird, Kurtz, and Dobson (BKD), Certified Public Accountants (CPA) and Denise Kiehnhoff, CPA, to perform financial audits of the college for the years ended June 30, 2002 and 2001, respectively. To minimize any duplication of effort, we reviewed the reports and substantiating work papers of BKD. In conducting our audit, we reviewed minutes of meetings, written policies, financial records, and other pertinent documents and interviewed various personnel of the college.

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

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understanding of the design 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 History, Organization, and Statistical Information 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 the college.

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

Claire McCaskill
State Auditor

August 7, 2003 (fieldwork completion date)

The following auditors participated in the preparation of this report:

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MANAGEMENT ADVISORY REPORT -
STATE AUDITOR'S FINDINGS

MISSOURI WESTERN STATE COLLEGE
MANAGEMENT ADVISORY REPORT –
STATE AUDITOR'S FINDINGS

1. Construction Projects

Missouri Western State College (MWSC) needs to improve the oversight and management of its construction projects. The cost of several projects was significantly increased through change orders; construction expenditures were not always properly reviewed and approved; and project files did not contain all relevant information. Additionally, the college's private architect sometimes bids and/or partners with other firms on projects when he has prepared the bid documentation. At a minimum, this situation gives the appearance of a conflict of interest.

The college completed 15 construction projects costing approximately $14.6 million during the two years ended June 30, 2002. During our review of these capital improvement projects, we noted the following concerns:

A. The cost of several of the construction contracts was significantly increased through change orders. Additional bids or proposals were not solicited for any of the change orders.

- The college expended nearly $446,000 as a result of eight change orders for additions and renovation of the student union building. The original construction contract totaled approximately $3.8 million. Many of the construction change orders were for work that was not included in the scope of the original project. Additional work included the replacement of the ceiling and light fixtures in the kitchen, alteration of below grade plumbing in the basement, adding new carpet on the second floor, and structural and electrical changes/additions. In addition, an industrial grade air conditioning unit, totaling over $252,000, was added.

- The college expended over $246,000 as a result of 57 change orders for the renovation of 106 classrooms in 5 buildings. The original construction contract totaled approximately $575,000. This work was not included in the scope of the original project.

- The college expended over $15,000 as a result of four change orders for sidewalk repair and construction. The original construction contract totaled $10,640. This work was not included in the scope of the original project.

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, or to cover new projects not included in the original bids. If the scope of a project changes substantially, consideration should be given to re-bidding those parts of the project.

B. Construction expenditures were not always properly reviewed and approved in accordance with college policy. We reviewed nine expenditures made from August 2000 to February 2002, totaling approximately $596,000, for various construction projects and noted that none of the expenditures were properly reviewed and approved. These expenditures ranged from $2,245 for draining two campus ponds to $208,000 for parking lot repairs and renovations.

The college's private architect certified the work for five of these expenditures, totaling approximately $334,000, and the Director of the Physical Plant accepted the work for the other four expenditures, totaling approximately $262,000. However, there was no indication that the Vice President of Administration reviewed or approved these payments.

College policy provides that the Director of the Physical Plant is to monitor progress of construction projects and the Vice President for Financial Planning and Administration is to approve payment of progressive billings for completed work. Construction expenditures need to be properly reviewed and approved by college officials to ensure the validity, propriety, and reasonableness of the amounts billed the college.

C. The construction project files did not contain all relevant information.

College officials could not locate contracts and/or requests for proposals (RFP) signed by both the college and contractor for 12 construction projects, with original bids totaling approximately $12.9 million. For these projects, the college's private architect prepared 11 RFPs and the college one. Also, 60 change orders, totaling approximately $260,000, on 6 projects were not in the project files. For these change orders, neither the college nor the construction companies could provide documentation of approval for 49 change orders, totaling over $185,000. In addition, for those change orders in the project file, the supporting documentation which identified the change was not always filed with the change order.

For proper oversight and management of construction projects, the project files should contain all records relating to the construction project, including the signed RFP and bid documents, approved change orders with a description of the change(s), and any other pertinent information related to the project.

D. The college's private architect, who is not a college employee but instead works under contract for the college, sometimes bids and/or partners with other firms on projects when he has prepared the RFP for the project. At a minimum, this situation gives the appearance of a conflict of interest.

For example, the college's private architect prepared the RFP related to design work for the $25 million project to enlarge and renovate the Science and Mathematics Center, and then before bids were submitted, partnered with the firm that won the bid. College officials indicated they were not aware of the partnership until the bid was awarded.

The college engages the services of an architectural firm to serve as a consultant and provide services that may include: assisting with the development of preliminary planning and designing of facilities, developing preliminary cost estimates, assisting with the development and review of bidding specifications, and other architectural engineering services as deemed necessary. The agreement with the college's private architect also provides that he will not be precluded from bidding on a specific project. Total expenditures to the college's private architect for these services were $19,302 and $106,901 in fiscal years 2002 and 2001, respectively.

To avoid potential conflict of interest transactions, the college should not allow the college's private architect to bid on projects when he has prepared the RFP or had a significant role in the planning or development of a project.

WE RECOMMEND the MWSC:

A. Ensure adequate planning is performed to reduce the number of change orders, and, if substantial changes are needed, consideration should be given to re-bidding the applicable projects. Also, changes orders should not be issued to add substantial new projects to existing contracts.

B. Establish controls to ensure construction expenditures are properly reviewed and approved in accordance with college policy.

C. Ensure construction project files contain all relevant information including the RFP, signed bid document(s), and change order(s), as applicable.

D. Consider amending the scope of services provided by the college's private architect so his involvement in construction projects does not give the appearance of, or constitute a conflict of interest.

AUDITEE'S RESPONSE

Prior to the audit, Western had begun to improve the oversight and management of its construction projects. The recommendations now being made by the auditing team are being integrated with previously planned improvements.

A. The College agrees with the recommendation to reduce the number of change orders. The College uses change orders to make adjustments for minor problems that are unknown when construction projects are originally bid. Since July 1, 2002, all change *orders have been approved by the Vice President for Financial Planning and Administration, and if the change orders are over $5,000, they have been taken to the Board of Regents for approval in accordance with College policy. It is the College's determination that change orders which add substantial new projects to existing contracts will not be issued.*

B. *Since July 1, 2002, it has been the College's policy that the Vice President for Financial Planning and Administration reviews and approves all expenditures over $1,000.*

C. *The College will ensure that construction files contain all relevant information including the RFP, the signed bid document(s), and all change order(s), as applicable.*

D. *Annually, the College solicits proposals for the services of a College architect. According to the architect's letter of engagement, the scope of representation includes rendering advice to various College staff concerning building and grounds issues, and assisting College staff with long range planning matters throughout the year. Specific building construction issues are subject to the separate architect selection process according to criteria from Section 8.289 of the Missouri Revised Statutes. In the specific instance described, three of the final four architects engaged the College architect as a consultant after they were selected as finalists.*

2. Merit Pay

MWSC's merit pay program appears to represent additional compensation in the form of a bonus, and, as such, is in violation of the state constitution. The college awarded "merit pay" in the form of lump sum payments totaling $146,575, $163,740, and $164,358 in fiscal years 2003, 2002, and 2001, respectively.

The merit pay program was started over ten years ago to annually reward faculty, administrative, and professional staff for performance that exceeds normal contractual expectations, and to encourage improved professional development.

These lump sum "merit pay" 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."

WE RECOMMEND the MWSC discontinue the merit pay program.

AUDITEE'S RESPONSE

Western respectfully differs with the auditing team's perspective on the matter of rewarding the performance of employees through merit pay.

It is the College's position that its merit pay program does not violate Article III, Section 39 of the Missouri Constitution. The College differs with the legal basis of the auditing team's recommendation, which cites the Attorney General's opinion No. 72-55 to Pray. A subsequent Attorney General's opinion (No. 114-87 to Jacob) and an appellate court decision (<u>Vangilder v. City of Jackson</u>, 492 S.W. 2d 15, 18 Mo Ct. App 1973) suggest that a payment made after a term of employment but earned during the term of employment does not violate Article III, Section 39 of the Missouri Constitution.

A Western employee's written contract incorporates by reference all of the policies, rules, and regulations of the College. The merit pay program is part of those policies, rules, and regulations and is, therefore, a part of the employment contract. Furthermore, merit pay is itself based on services that are performed during the contract period. Accordingly, under A.G. opinion No. 114 -87 to Jacobs and the <u>VanGilder</u> case, the College's merit pay program does not appear to violate the Missouri constitution. In fact, prior to the audit, the merit pay program was changed to insure that all payments are received during an employee's contract year.

Two years ago, with the assistance of the Fox, Lawson consulting firm, the College began a review of its classification and compensation system for employees. The merit pay program is part of this review. While it is the College's perspective that its present merit program does not violate the Missouri Constitution, the College will seriously consider the auditing team's recommendations regarding merit pay as it works to improve its classification and compensation system for employees.

3. Expenditures

MWSC did not always follow purchasing guidelines related to bidding and advertising. In addition, the supporting documentation for business-related expense is not always adequate; procurement card transaction limits need to be reevaluated; and some expenditures may not be a prudent, reasonable, or necessary use of public funds.

College records indicate expenditures, excluding personal service costs, totaled nearly $16 million in fiscal year 2002. Our review of purchasing practices and expenditures disclosed the following concerns:

A. The college did not always follow purchasing guidelines for obtaining bids and advertising for services.

The state's Office of Administration (OA) has granted the college the authority, through Chapter 34 RSMo, to procure supplies (supplies, materials, equipment, and contractual services) directly rather than referring their procurement to the

OA, Division of Purchasing and Materials Management. The college must still comply with the state's purchasing policies and guidelines, such as soliciting competitive bids for purchases of $3,000 or more. In addition, procurements, including single feasible source procurements, valued at $25,000 or more must be posted and advertised in at least two daily newspapers at least five days before the bids are to be opened.

1. The college did not solicit bids for its cellular telephone services and collection agency services, on a periodic basis.

    - The college expended approximately $14,600 and $12,000 during fiscal years 2002 and 2001, respectively, for cellular telephone usage from five separate companies. Each employee procures their individual service.

    - Each year, the college renews the agreements with its five collection agencies, instead of bidding for the services. Four of these agreements were entered into before 2000. Commissions (paid by the debtor) retained by these agencies totaled approximately $230,000 for the three fiscal years ended June 30, 2003.

2. Some items were not properly advertised, in accordance with purchasing guidelines.

    - In June 2001, the college paid $151,088 for a mobile computer training unit, including computers, printers, software, and hardware. Although this purchase was not publicly advertised, bids were requested and received by mail.

    - In January 2001, the college paid $44,950 for a document imaging system, which was advertised for three days in one newspaper instead of two newspapers, as required.

    - In October 2002 and September 2001, the college paid $44,450 and $35,000 for 22 computers and a process plant trainer, respectively. According to college officials, these purchases were from a specific vendor because no other manufacturer could provide the item. As a result, these purchases were not posted and/or advertised, as required. Additionally, the reason for the sole source purchase of the computers was not documented.

The college's purchasing guidelines regarding competitive bidding and advertising should be followed to ensure items and services are procured at the lowest and best price and that all vendors are given an equal opportunity to participate in the college's business. The reasons for sole source purchases should be documented.

B. The supporting documentation for the college's business-related expenses (particularly for business meals and credit card charges) is not always adequate.

The supporting documentation for business meals does not always include the specific business purpose and/or guest(s), and hotel statements do not usually include an itemized statement of the charges. For the expenses reviewed, generally, only the credit card statement and the signed charge slip were submitted for reimbursement. Additionally, college officials usually approve their own expenses. For example, in September 2001 and November 2000, college officials approved their own credit card charges, totaling $1,705 and $3,330, respectively.

Accountability over business expenses is reduced without adequate supporting documentation. A business purpose and the name(s) of any guest(s) are needed to evaluate necessity and reasonableness. Also, actual charge receipts need to be submitted to support credit card charges and itemized hotel charges need to be obtained to evaluate whether the expenses are for official college business. Additionally, college officials should not approve their own business-related expenses.

C. The college needs to reevaluate the reasonableness of the transaction and monthly limits authorized for its various procurement cards. Some employees may not need a procurement card.

The college uses procurement cards for various small purchases to eliminate the need for petty cash, employee reimbursements, and low dollar purchase orders. During fiscal year 2002, procurement card purchases totaled over $530,000. The procurement card policy restricts single purchases to $500 or less; however, upon request by the employee's department head, the transaction and monthly limit may be increased.

Spending limits are not based on a needs analysis. We noted 50 of 139 current cardholders have transaction limits from $1,000 to $10,000, and monthly limits from $2,000 to $10,000. One other cardholder has no transaction limit, but has a $10,000 monthly limit. Approximately 50 percent of the purchases made in fiscal year 2002 were made by 11 cardholders. Additionally, 48 employees spent less than $1,000, with 9 of these employees spending less than $100.

Authorizing employees higher spending limits than needed to perform their job exposes the college to unnecessary risks. College officials should reevaluate the reasonableness of procurement card limits, and provide cards, with appropriate transaction and monthly limits, to employees based on past or anticipated purchasing patterns.

D. We noted some expenditures which may not be a prudent, reasonable, or necessary use of public funds. Examples of some of the expenditures which we viewed as questionable include the following:

- $5,400 for banquets to honor employees and faculty for years of service in the fall of 2000 and 2001.

- $3,182 for catered dinners to welcome new faculty in the fall of 2000 and 2001.

- $1,010 for expenses of a military (ROTC) ball in 2001, when student fund-raising efforts fell short of the total cost.

- $300 for a Thanksgiving benefit dinner sponsored by the city of St. Joseph in 2001.

- $1,767 for Christmas cards, a disc jockey and Christmas parties for employees in 2000 and 2001.

- $1,780 for 299 tee shirts distributed to employees for participation in a Wellness Program in 2001.

In addition, the purchase of a mobile computer training unit did not appear prudent. The college purchased a mobile computer training unit, including computer hardware and software, totaling over $151,000 in June 2001. The training unit is designed to provide a variety of educational opportunities on-site for area companies. However, the college did not perform an analysis of projected revenues or cost to maintain the unit. Since its purchase, the training unit has been used once, in August 2001, and has generated revenues of only $1,809. According to college officials, students are currently using the training unit in conjunction with various courses.

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

WE RECOMMEND the MWSC:

A. Ensure the college's purchasing policies and guidelines are strictly followed. Competitive bids should be solicited for the procurement of goods and services over $3,000 and purchases should be advertised, as required. The reasons for sole source purchases should be documented.

B. Require all employees to submit proper documentation for business-related expenses, including the names(s) of the guest(s) and the business purpose for meals. Also, the college should require credit card charges be supported by the actual charge receipt. In addition, the college should implement procedures whereby college officials do not approve their own expense claims.

C. Reevaluate employees' transaction and monthly limits based on their past procurement activity and their need to perform assigned duties. In addition, the college should consider terminating procurement cards which are used infrequently.

D. Ensure all expenditures are necessary and a prudent use of public funds.

<u>AUDITEE'S RESPONSE</u>

Western largely agrees with the recommendations of the auditing team regarding expenditures. Most of the recommendations have already been integrated into the College's operational processes.

A. Western agrees with the recommendation that the College's purchasing policies and guidelines should be specifically followed. In December 2003, Western bid all of its cellular phones and selected one carrier. Since the College does not pay collection agency fees, the College believes that they do not need to be bid. Sole source purchases will be documented as such when not obvious.

B. Although College policy has always required that employees submit proper documentation for business-related expenses, as a part of our on-going improvement process, revised policies were issued in July, 2003, that clearly describe procedures for documentation and approval of business-related expenditures. All expenditures require the approval of the supervisor of the person submitting the expenditure.

C. Western agrees with the recommendation that the College needs to evaluate the transaction and monthly limits authorized for its employees' procurement cards. The College is in the fourth year of procurement card usage, and it has now enough data to evaluate the transaction volume of the cards.

D. The College agrees that all expenditures should be viewed in terms of the critical educational needs of the institution and evaluated and compared relative to the overall goals and responsibilities of the College. The College budgets and spends its resources very conservatively and it will continue to do so. It considers the expenditures cited in the audit report to be reasonable and modest investments (compared to customary expenditures in colleges and universities across the nation) toward the fulfillment of our mission and goals.

4. Controls Over Receipts

MWSC has not developed college-wide written policies and procedures regarding the handling and depositing of receipts and internal controls over receipts need to be improved. In addition, the college has not established procedures to verify the accuracy of reported sales and the related commission calculations for the soft drink vending contract.

Our review of controls over receipts disclosed the following concerns:

A. Internal controls over receipts need to be improved. Various college departments do not properly account for monies received.

Receipts are collected by various departments, such as the athletic department, library, health center, and campus security, and turned over to the business office for deposit. While a large percentage of these monies are paid by check, credit card, or money order, a substantial portion of these funds are received in cash.

1. The athletic department does not account for all tickets sold at the various athletic events and has little assurance that all monies collected are turned over to the business office. Ticket numbers for advance ticket sales are not documented. Ticket sales at the gate are recorded on a form, which documents beginning and ending ticket numbers, number of tickets sold and cash collected. However, during our review of ticket sales, we noted mathematical errors on these forms. Additionally, there is not an independent review of ticket sales.

   As a result, the athletic department can not easily reconcile the tickets sold and money collected to the amounts recorded in the business office. Our reconciliation of the monies collected for a basketball tournament in February 2002 to the amounts recorded by the business office revealed the athletic department's records showed ticket sales of at least $70 more than the business office receipts totaling $27,820.

   To ensure ticket sales are properly handled and accounted for, ticket numbers for advance ticket sales should be documented, the gate sales forms should be checked for mathematical accuracy, and the composition of amounts turned over to the business office should be reconciled to the recorded ticket sales. In addition, to ensure the accountability of ticket sales, the numerical sequence of tickets should be accounted for fully and an independent review of ticket sales should be performed.

2. Other college departments are also not properly accounting for monies received.

   The library does not issue receipt slips for some monies collected, the receipt slips that are issued are not pre-numbered, and the method of payment is not recorded. Additionally, the library change fund is not established at a specific amount. According to library officials, the balance of the change fund may fluctuate from $60 to $90. Also, the library frequently cashes personal checks for employees and others. This practice reduces the accountability for monies received. In addition, the health center issues receipt slips for monies received, but the slips are not pre-numbered and the method of payment is not recorded.

Pre-numbered receipt slips should be issued indicating the method of payment and the composition of monies received should be reconciled to the composition of funds turned over to the business office. Additionally, any change fund balance should be established at a set amount and personal checks should not be cashed from daily receipts.

To adequately safeguard receipts and reduce the risk of loss, theft, or misuse of funds, the college should develop college-wide written policies and procedures to provide guidance on the handling of receipts. These policies and procedures should address the proper handling of gate receipts from athletic events. In addition, any change fund should be established at a certain amount and personal checks should not be cashed from daily receipts.

B. The college has not established procedures to verify the accuracy of reported sales and the related commission calculations for the soft drink vending contract. In 1996, the college entered into a ten-year contract with a local vendor to provide and operate the soft drink vending services at the college. The terms of the contract required the vendor to pay the college varying percentages of gross receipts for different beverages, net of state sales tax, with an annual minimum commission guarantee of $70,000.

The college only tracks the monthly commissions received to ensure the minimum commission of $70,000 is received. Although the terms of the agreement require the vendor to provide a detailed report of sales, by building and product, the monthly sales reports do not breakdown sales by type of beverages. Since 1996, the college has received the annual minimum commission of $70,000.

The college should require detailed sales reports, including the number and type of beverages sold and verify commissions to ensure the appropriate amount was received. Thorough reviews are necessary to ensure the propriety of commissions received by the college and compliance with contractual terms.

WE RECOMMEND the MWSC:

A. Develop college-wide written policies and procedures regarding the handling of receipts. Such policies should require pre-numbered receipt slips be issued for all monies received and the composition of receipts should be reconciled to the monies turned over to the business office. Also, procedures should be established for the handling of ticket sales receipts from athletic events. Additionally, the college should discontinue the practice of cashing personal checks for employees and others, and any change fund should be established at a specific amount.

B. Establish procedures to monitor the terms of the contract with the soft drink vendor and to verify commissions to ensure the appropriate amount is received.

AUDITEE'S RESPONSE

Western agrees with the recommendations of the auditing team regarding controls over receipts. These recommendations will be integrated into the College's operational processes.

A. The College will develop written policies and procedures regarding the handling of receipts and the cashing of personal checks.

B. The College will review the sales reporting procedures with its soft drink vendor to ensure the accuracy of reported sales and the related commission calculation for the soft drink vending contract.

5. A+ Schools Program

MWSC's participation in the A+ Schools Program (A+ Program) appears to circumvent the intent of state law. In addition, the college's arrangement with a local vocational technical school has cost the state approximately $142,000.

The A+ Program is a school improvement initiative established by the Outstanding Schools Act of 1993 to encourage students to stay in high school, make career plans, and graduate with the skills and knowledge required for career success or further education. Students who graduate from a designated A+ high school may qualify for state paid tuition for post secondary education at community colleges, vocational or technical schools.

Eligible post secondary educational institutions are reimbursed for tuition, books and common fees, applicable to all students, for each A+ eligible student for two years full-time course work, to be used within the students' four-year eligibility period. Since the college's participation in the A+ Program from fall 2000 through spring 2003, MWSC has received reimbursement of tuition, books and fees totaling approximately $1,425,000.

Our review of the A+ Program funding disclosed the following concerns:

A. The college's participation in the A+ Program appears to circumvent the intent of state law. Section 160.545.5, RSMo Cumulative Supp. 2002, provides for the "reimbursement of the costs of tuition, books, and fees to any public community college or vocational or technical school" for eligible students.

Since MWSC is not a community college, the college entered into an agreement (Statement of Assurances) with the local vocational technical school (Hillyard) whereby students would be enrolled at Hillyard and could attend classes at MWSC. The classes offered by MWSC are classes that Hillyard does not provide and are limited to coursework for certain one-year certificates or two-year degree programs. As of spring 2003, only 11 students receiving A+ funding have graduated. Three of these students are currently enrolled in a four-year degree program and another four students have completed a 4-year degree program at the college.

However, it appears the A+ students are not actually students at Hillyard and are in fact students at MWSC. College personnel (A+ Coordinator) oversee and manage the A+ Program, including registering and advising students, monitoring student grades and progress, and preparing the reimbursement requests. A+ students are registered on the college's student account records and participate in school activities like other students, and they do not need to attend Hillyard. According to the A+ Coordinator, none of the 153 A+ students enrolled in spring 2003 were attending classes at Hillyard and over half of these students lived in college residence halls.

Although the college sends Hillyard copies of A+ enrollment records and student grades and transcripts, Hillyard's only function is to request the reimbursements from the Department of Elementary and Secondary Education (DESE). Hillyard requests the A+ reimbursements because DESE has identified Hillyard, not MWSC, as an eligible institution for the A+ Program.

MWSC needs to reevaluate its participation in the A+ Program and ensure its participation is within the intent of state law.

B. The arrangement between the college and Hillyard has resulted in extra costs to the state totaling approximately $142,000.

Hillyard requests and receives from DESE a fee of 10 percent of the allowable charges (minus any federal financial aid) for the MWSC A+ eligible students. Since fall 2000 through spring 2003, DESE has paid Hillyard approximately $1,567,000. In turn, Hillyard has paid the college approximately $1,425,000 for the A+ student's tuition, books, and fees assessed by the college and has retained approximately $142,000 as their fee.

This 10 percent fee does not appear to be allowed under Section 160.545.5, RSMo Cumulative Supp. 2002, since it is not for the actual cost of tuition, books, or fees assessed students.

WE RECOMMEND the MWSC reevaluate its arrangement with Hillyard and ensure participation in the A+ Program is within the intent of state law. Furthermore, the legislature should evaluate the participation in the A+ program statewide to be certain its implementation is following the intent of the legislation.

AUDITEE'S RESPONSE

The auditing team recommends that Western re-evaluate its arrangement with Hillyard Technical School to ensure that participation in the A+ Program complies with the intent of State law. The College has done so and firmly believes that its participation meets both the spirit and intent of the A+ legislation.

First, the A+ Program's stated goal is to afford educational opportunities for vocational and technical training. Clearly, the Missouri Western-Hillyard cooperative arrangement meets that need.

Second, the Department of Elementary and Secondary Education (DESE) administers the A+ Program, and DESE has approved the arrangement with Hillyard.

Third, as noted in Attorney General opinion No. 100 - 98 to Senators Libyer and Childers, the A+ Program statute does not define the term A+ public community college or vocational or technical school. In that opinion, the Attorney General concluded that Southwest Missouri State University, a four-year college, which has a separate campus for associate degree programs, qualified as a community college/technical/vocational school within the meaning of the A+ statutes. In addition, Southeast Missouri State College at Cape Girardeau (another four year institution) also participates in the A+ Program.

Fourth, under Section 174.251 RSMo, Missouri Western State College is specifically mandated by the State Legislature to offer associate degree programs. The A+ Program affords opportunities for students to obtain associate degrees from Western in the areas of vocational and technical training.

Given that the statute does not define the term A+ community college; that other four year institutions offering associate degrees participate in the A+ Program; that DESE has approved our arrangement; and, most importantly, that our arrangement provides technical education to improve our workforce and thereby, Missouri's economy, it is our belief that Western clearly satisfies both the intent and spirit of the A+ legislation.

6. Sunshine Law

MWSC did not have an updated policy regarding public access to college records to ensure compliance with the current Sunshine Law, Chapter 610, RSMo. In addition, it appears that college officials were not aware of their responsibility to respond timely to requests for information from the general public.

We requested certain information on plain paper to give the appearance that the request came from a private citizen. The request was mailed to the college on June 19, 2003, by certified mail, and was received by the college on June 23, 2003. We did not receive a response. College officials provided a copy of a letter, dated June 30, 2003, which addressed our request; however, it appears the response was not mailed. According to college officials, the college has not designated a person to handle requests from the public or established procedures to ensure that requests under the Sunshine Law are answered in a timely manner.

A formal policy would establish guidelines for the college to make the records available to the public. This policy should establish a person to contact, provide an address to mail request for access to records, and establish a cost to provide copies of public records. Section 610.023, RSMo 2000, lists requirements for making college records available to the public. In addition, this section provides that requests should be acted upon no later than the third business day following the date the request was received by the governmental body.

WE RECOMMEND the MWSC establish formal written policies and procedures regarding public access to college records. The college should ensure public requests for college records are acted upon within three business days.

AUDITEE'S RESPONSE

Western agrees with the basic recommendations of the auditing team regarding the Sunshine Law.

As a public institution, Missouri Western State College is committed to openness in its operations. The College policy guide and Board of Regent's policies have always contained written affirmation of the open meetings statutes. It is correct, nonetheless, that those policies had not been updated for some time. However, at its August, 2003, meeting, the Board of Regents adopted a resolution naming the Vice President for Financial Planning and Administration as the designated official for purposes of responding to Sunshine Law requests. In addition, the College updated its references to the Sunshine Law in the policies of its Board of Regents at that time.

7. Capital Assets

Various problems were noted regarding MWSC's capital asset records and related procedures. A physical inventory of capital assets was not performed prior to fiscal year 2002, property dispositions are not properly handled and accounted for, and the capital asset records are not complete and/or accurate.

The college's balance sheet for June 30, 2002, shows an investment in equipment, furniture, and fixtures of over $19 million. Our review of the capital asset records and related procedures noted the following:

A. According to college officials, a physical inventory of capital assets had not been performed prior to fiscal year 2002. In fiscal year 2002, each college department verified the status of their assets. Annual physical inventories are necessary to ensure the accuracy of capital asset records and to detect the loss, theft, or misuse of assets. The college should conduct annual physical inventories and reconcile the results of the inventories to the detailed capital asset records. In addition, the physical inventory should be conducted by persons independent of those having record-keeping or custodial duties.

B. The college has not established adequate policies and procedures to properly handle and account for property dispositions. Disposed of items are stored in a campus storage building (barn) until a surplus property sale is held. We noted the following problems:

- Fixed asset dispositions are not accounted for as they occur. The college does not remove an item from its capital asset records when the item is disposed of. Upon our request, the college prepared a disposal report from its capital asset records in May 2003. The report showed property with a cost of approximately $3.4 million as being disposed of, but still on the capital asset records.

- Capital asset dispositions are not required to be approved/authorized.

- A list of property stored at the barn is not maintained.

- From disposal records, we selected 12 items, such as printers, satellite dish, copier, monitor, and tractors, to locate in the barn. We could not find any of the items and could not determine if the items were sold in the surplus property sale in 2001 (see below). However, we located two tractors, identified as disposed of, being used by grounds personnel.

- Adequate documentation for the surplus property sale in 2001 was not prepared. The list of items sold only included a description and not a tag number and/or serial number.

The college needs to establish formal written policies and procedures to ensure the disposition of college capital assets is properly handled, approved, and recorded in the capital asset records. In addition, the date and method of disposal should be recorded in the records. Also, an independent management level approval of the disposition should be required.

C. The capital asset records are not complete and/or accurate. Various items were not properly tagged as property of the college, and the capital asset records did not always include accurate information.

For example, seven items with a value of approximately $210,600 on the capital asset records did not have tags, some items were not located where the records indicated, and the tag number on an item, with a value of approximately $7,200, did not agree to the tag number on the capital asset records.

> Capital asset items should be properly tagged and all identifying information accurately recorded in the capital asset records. Annual physical inventories would help identify these problems on a timely basis.

Capital assets represent a significant investment of public funds and should be adequately safeguarded from loss or theft, and capital asset records provide information needed by the college for financial reporting and control purposes. Failure to maintain accurate records or to properly account for capital asset items increases the likelihood that assets may be lost, stolen, or incorrectly valued. In addition, the capital asset records should include an 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.

In July 2003, the college established policies and procedures to address the acquisition, use, control, and disposal of capital assets.

WE RECOMMEND the MWSC:

A. Conduct a physical inventory of all capital assets on an annual basis and reconcile the results of the inventory to the detailed capital asset records. In addition, the physical inventory should be conducted by persons independent of those having record-keeping or custodial duties.

B. Establish formal written policies and procedures regarding the disposition of capital assets, including identifying the asset and the date and method of disposal. Complete records should be maintained to support all dispositions and such transactions should be recorded in the detailed capital asset records. In addition, an independent management level approval of the disposition should be required.

C. Ensure all capital assets are properly tagged and all identifying information is properly recorded in the detailed capital asset records.

AUDITEE'S RESPONSE

Prior to the visit of the auditing team, Western had begun the process of improving its control of capital assets. The recommendations of the auditing team are being integrated into that process.

A. The College conducted a physical inventory of capital assets in fiscal year 2002. In addition, a Fixed Asset Accountant was added to the accounting department staff in September, 2003, to provide independent record-keeping and custodial duties for this area.

B. As a part of our on-going process of continuous quality improvement, Fixed Asset policies were updated and re-issued in July, 2003. Western would note that the *equipment originally costing $3.4 million on the capital asset records, in fact had a depreciated value of approximately $11,000 when it was placed in surplus.*

C. *A Fixed Asset Accountant was added to the accounting department staff in September, 2003. A primary responsibility of this position is to ensure all capital assets are properly tagged and all identifying information is properly recorded in the detailed capital asset records.*

8. College Vehicles

MWSC needs to perform a cost-benefit analysis of travel costs to evaluate the most cost-effective method of furnishing vehicles for college related business. In addition, mileage logs were not always complete and/or accurate and the college needs to improve its monitoring of leased vehicles.

The college owns approximately 40 vehicles including six fleet vehicles and thirty-four other vehicles used for maintenance, the police institute, and other college activities. College teams, organizations, and employees use fleet vehicles, and each department's budget is charged mileage for the use of these vehicles. Problems noted during our review of college vehicles include:

A. The college has not performed a cost-benefit analysis of travel costs to evaluate the most cost effective method of furnishing vehicles for college related business.

In addition to maintaining 40 college-owned vehicles, the college paid approximately $58,500, $54,500 and $84,700 to car rental companies for vehicle rentals for the years ended June 30, 2003, 2002 and 2001, respectively. These rental vehicles include annual leases for three security vehicles, three police institute vehicles, and vehicles, ranging from two in the summer to six or seven in the fall, for the admission office. Also, the college paid mileage reimbursements, totaling over $212,000, to employees for the use of their personal vehicles for the three fiscal years ended June 30, 2003.

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.

B. The mileage/usage logs which document vehicle usage are not always adequate for fleet vehicles.

Although trip sheets are used, we noted many instances where the purpose of the trip, destination, and dates used were not recorded. In addition, some odometer readings were missing or did not appear to be accurate. For example, we noted several instances where the odometer reading for a vehicle at the beginning of a month was significantly more or less than the previous month's ending odometer reading. In addition, the college does not periodically reconcile the trip sheet information to the actual vehicle odometer readings.

Vehicle 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 college management to ensure all mileage is recorded and that the vehicles are being properly utilized. Information on the logs should be reviewed in conjunction with fuel purchases and other maintenance charges. Mileage logs are necessary to document appropriate use of vehicles and to monitor operation and maintenance costs.

C. The college needs to improve its monitoring of leased and/or rented vehicles. Adequate documentation is not maintained to support the use of these vehicles and related expenses. Information such as the date of the trip, trip origin, destination, expenses incurred, and purpose of trip are necessary to help ensure the propriety of travel expense.

WE RECOMMEND the MWSC:

A. 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.

B. Maintain complete and accurate mileage logs for each college-owned vehicle. The logs should be periodically reviewed by college management for completeness and reasonableness. The ending mileage reported should be periodically reconciled to the vehicle odometer readings.

C. Require adequate documentation to support the use of leased/rented vehicles and related travel expenses. Information such as trip date, origin, destination, and purpose should be maintained to ensure propriety of travel expenses.

AUDITEE'S RESPONSE

Western will integrate the recommendations of the auditing team into its process as for the management of college vehicles.

A. The six fleet vehicles used to transport college teams and for other college activities include two buses and four vans. Western conducted a cost-benefit analysis of these vehicles in the spring of 2003, to determine the most effective method for furnishing vehicles for college-related business. Other campus vehicles used by the maintenance department were purchased under Missouri State contract. Law Enforcement Academy vehicles are donated from the Buchanan County Sheriff's Department. Vehicles are leased only when it is cost effective to do so. Mileage rates paid to employees are based upon the Missouri State reimbursement rate.

B. *Mileage-use logs were given to all employees driving a college owned/leased vehicle for fiscal year 2003. These are reviewed by the Associate Vice President for Financial Planning and Administration at the end of each fiscal year. The value of automobile personal use is included as taxable income and payroll tax is withheld, as appropriate.*

C. *The recommended trip details for vehicles are found on the remittance voucher, which must be completed and approved before payment is made.*

9. Cellular Telephones

MWSC needs to improve its policies and controls over cellular telephones. A formal policy regarding the procurement, usage, and oversight of cellular telephones was not established, cellular telephone usage patterns were not adequately analyzed to ensure each user was enrolled in the most cost-effective service plan, and cellular telephone billing statements are not adequately reviewed to ensure all personal use is identified and reimbursed.

The college expended approximately $14,600 and $12,000 during fiscal years 2002 and 2001, respectively, for cellular telephone usage from five separate companies. The college had separate usage packages for its 30 cellular telephones, but could not locate contracts for 18 of these telephones. Monthly fees for current plans range from $15 to $80, which include basic plan minutes ranging from 75 to 3,000 per month.

Our review of the policies, controls and records for cellular telephone services disclosed the following:

A. The college did not have a formal written policy regarding cellular telephone usage, or guidelines to determine whether a cellular telephone was needed or of benefit to the college, during the two fiscal years ending June 30, 2002. Additionally, the college has not designated a person(s) to be responsible for procuring and coordinating all its cellular telephone equipment and services. After approval by the department head, individuals are allowed to contact cellular telephone companies to set up their own accounts and obtain telephones and plans of their choice.

   While cellular phones can help increase employee productivity, they are also costly. To ensure the efficient and effective use of cellular telephones, the college should develop written policies and procedures regarding the use of cellular telephones. 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 addition, the college should consider designating a person(s) to be responsible for all college cellular telephone services, including the procurement of equipment and service, the maintenance of records, such as equipment tracking and personal reimbursements, and the determination of whether rate plans are appropriate.

B. Some employee cellular telephone plans did not appear to match their usage patterns. The usage exceeded the number of plan minutes for many billing statements reviewed, which resulted in additional costs to the college.

For example, an invoice in October 2000 for three cellular telephones included roaming and long distance charges totaling $116, and an invoice in August 2001 for the same three telephones included roaming and long distance charges totaling $107. In August 2001 and May 2002, invoices for two other telephones included call charges totaling $112 and $347, respectively.

Cellular telephone usage patterns should be routinely monitored and analyzed to ensure each user is enrolled in the most cost-effective plan. The college should review its current and historical levels of cellular telephone use for business-related purposes along with the types of employee positions that require cellular telephones and develop a standard for matching employees and their positions to cellular telephone plans. Implementing such procedures should result in cost savings to the college.

C. Cellular telephone billing statements are not adequately reviewed to ensure all personal use is identified and reimbursed. Billing statements are not required to be reviewed by the user and department head to identify personal calls, unless plan minutes are exceeded.

However, the review by the user did not always document personal usage. For example, an employee reimbursed the college $195 for personal usage covering a two month period. The reimbursement was based on air time charges above the plan minutes, not on actual personal calls.

The college needs to ensure procedures are adequate to identify all personal calls which should be reimbursed. The college may want to consider prohibiting the personal use of cellular telephones, except in case of emergency.

Although the college developed a formal written policy regarding cellular phone usage in July 2003, the policy does not designate a person(s) to be responsible for the procuring and coordinating all cellular telephone equipment and services, and does not require review of itemized statements by the user or the department head unless basic plan minutes are exceeded.

WE RECOMMEND the MWSC:

A. Consider designating a specific person(s) to be responsible for procuring and coordinating all cellular telephone equipment and services.

B. Expand current policies and procedures to ensure the most cost-effective telephone plans for business-related purposes are selected based on actual business usage by college personnel.

C. Ensure personal calls are identified, reimbursed, and restricted, as appropriate.

AUDITEE'S RESPONSE

Western has already integrated the recommendations of the auditing team into its management of cellular telephones.

A. The Chief Accountant/Purchasing Director has been designated as the specific person responsible for procuring and coordinating all cellular phone equipment and services. The College bid cellular phone service, and the Board of Regents approved this bid, in December, 2003.

B. Cellular phone policies were issued in July, 2003.

C. The cellular telephone policy requires that the user and the department head review and approve the billing statements.

10. Computer Controls

MWSC has no formal policy for revoking terminated employees' access to its computer system. Also, system passwords and user identification codes (IDs) are not required to be changed periodically and group user IDs are issued for certain employees to share. Additionally, the college's vendor file included numerous duplicate vendor names.

Various departments have access to the college's networked computer system which maintains the college's financial, student, and financial aid records. Each software application within the system requires two different passwords to enter the system, an overall system password, and a user ID.

Our review of the computer system controls and procedures disclosed the following concerns:

A. Access to the college's computer system is not revoked on a timely basis when an employee terminates employment. During our review of computer access in March 2003, we determined that 14 former employees still had access to the computer system even though their termination dates ranged from July 1998 to August 2002. Nine of the former employees had access to the financial records and the other five had access to the student and financial aid records. Most of these former employees were authorized to add or update records.

Continuing to allow terminated employees access to the college's computer system increases the risks of unauthorized use and modification of the data. The college should implement formal procedures to ensure terminated employee's user ID is revoked on a timely basis. In addition, the college should periodically compare individuals with computer access to current employee records to ensure computer access is limited to authorized personnel only.

B. System passwords and some user IDs are not required to be changed periodically. Also, group user IDs are issued for certain employees to share.

- Department directors were not sure when their applicable system password was last changed. According to the Management Information Systems (MIS) coordinator, once issued, system passwords are not changed except upon request by the department directors.

- The group and individual user IDs for the student and financial aid system are not required to be changed on a periodic basic.

- The group user IDs are established to be used by one or more individuals including student interns and/or part-time employees, within certain departments, such as the business office, housing, faculty, and admissions office.

Passwords and user IDs not only restrict who may access the computer system, they also provide the means to trace transactions back to specific individuals which establishes user accountability. The sharing of user IDs makes it impossible to determine who initiated a transaction and increases the risk of abuse of the system.

Changing system passwords and user IDs on a regular basis and ensuring all users have unique IDs strengthens controls for access to the computer systems and allows better monitoring of users accessing the system.

C. The college's vendor list included over 140 duplicate vendor names, each with a separate vendor number. The college uses an automated invoice processing system to process bills paid by the college. To receive payment, vendors must be entered in the system with a vendor number.

Many times the duplicate entry was due to a slight variation in spelling of the vendor's name. According to accounting personnel, they must manually review the records and delete duplicate and inactive vendor records.

Deleting duplicate vendor names and inactive vendors would give the college better control over vendor information and would result in a more efficient operation.

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

A. Implement formal procedures to ensure terminated employees' user ID is revoked on a timely basis. In addition, the college should periodically compare individuals with computer access to current employee records to ensure computer access is limited to authorized personnel only.

B. Require system passwords and user IDs be changed periodically and assign unique user IDs to all users.

C. Purge the vendor file of duplicate and inactive vendors on a periodic basis.

<u>AUDITEE'S RESPONSE</u>

Western agrees with the recommendations of the auditing team regarding computer controls. Several changes have already been made to accommodate these recommendations. Other changes are slated to integrate the team's recommendations into the previously planned improvement in the College's software systems.

A. The College has implemented a formal procedure to ensure that terminated employees' user IDs are revoked on a timely basis. This element has been added to the check out procedures for departing employees utilized by the Human Resources department. The College has established a procedure for user departments to review software system access against current employee records on a quarterly basis. This process will be made more efficient as a result of the implementation of an integrated software system.

B. Western has updated its data access procedures as a result of the Graham Leach Bliley Policy recently developed by the College. The policy requires personal and system passwords to be changed at least twice a year. Implementation of the MWSC integrated software system has begun and is expected to be completed over the next 30 months. A Data Standards, Integrity and Security document, that defines the data access requirements and requirements for password access to the system, has already been drafted as a part of this implementation.

C. Vendor files will be purged of duplicate and inactive vendors as a part of the implementation of the College's new integrated software system. The financial module, which includes vendor files, is slated for completion by July 1, 2004. In addition, a Data Standards, Integrity and Security document drafted as a part of this implementation defines the standards for entering all data records, including vendors, into the new integrated software system. This definition will prevent duplicate vendor names from being entered into the system.

11. Foundation and Alumni Association

MWSC's practice of subsidizing some of the operating expenses of the Missouri Western State College Foundation (Foundation) and Western Alumni Association (Association) does not appear appropriate and may violate provisions of the Missouri Constitution. Also, the college did not properly account for and report the personal use of vehicles furnished to the athletic staff by the Gold Coat Club, whose funds are processed through the Foundation.

Both the Foundation and Association are not-for-profit organizations who receive donations from individuals and organizations for the benefit of the college. The Foundation was established in 1969 to foster partnerships and vital connections by encouraging gifts and investments to further the success of the college. The Association was established in 1970 to provide opportunities for alumni to stay in touch with the college and to assist in raising scholarship funds.

The Vice President for Institutional Advancement serves as the Executive Director of the Foundation and the College President is a member of the Foundation's board. In addition, college personnel in the Office of Institutional Advancement also function as staff for these organizations.

A. MWSC subsidizes some operating expenses of the Foundation and Association. This practice does not appear to be appropriate and may violate provisions of the Missouri Constitution. Although the Foundation and Association reimbursed the college for some operating expenses such as clerical and student salaries, postage, office supplies, and telephone expense, the college subsidized other expenses which were not reimbursed during fiscal years 2002 and 2001.

- The college paid the salary and fringe benefits, totaling over $100,000 and $40,000 annually, for the Executive Director of the Foundation and Director of Foundation and Alumni Accounting Services, respectively, In addition, the salary and fringe benefits for the accounting clerk for the Foundation and Association was paid entirely by the Foundation.

- The college's practice is to pay approximately $9,700 of operating expenses each year for the Association.

- In June 2001, the college donated $10,000 to the Association for homecoming expenses.

- In June 2001, the college donated $1,550 to the Foundation to defray costs associated with honor band.

In January 2003, based on past experience and job responsibilities, the college allocated the salary expense for the Director of Foundation and Alumni

Accounting services 20, 20, and 60 percent to the college, Association, and Foundation, respectively. Also, the salary for the accounting clerk was split 75/25 to the Foundation and Association.

The practice of subsidizing the Foundation and the Association with college, or public, funds appears to constitute the granting or lending of public funds to a private entity, which is prohibited by Article VI, Section 25 of the Missouri Constitution.

B. Neither the college nor the Foundation properly accounted for and reported the personal use of vehicles furnished to the athletic staff by the Foundation (Gold Coat Club funds).

In fiscal years 2002 and 2001, the Foundation paid approximately $18,900 and $17,700, respectively, to lease and insure three vehicles provided to the athletic director and two coaches. The Foundation also paid insurance, totaling approximately $1,700 annually, for two additional vehicles that were provided to two other coaches.

Federal regulations require all employers to withhold payroll taxes and include the value of automobile personal use in taxable income.

WE RECOMMEND the MWSC:

A. Discontinue the practice of subsidizing the operations and activities of the Foundation and the Association, and consider requesting reimbursement for past subsidies.

B. In conjunction with the Foundation, ensure the value of automobile personal use is included as taxable income and payroll tax is withheld, as appropriate.

AUDITEE'S RESPONSE

Prior to the visit of the auditing team, Western had begun the process of attributing all Foundation and Alumni Association expenses to these organizations. While both organizations serve only the College (and serve it well), the College agrees that all of their expenses should be accommodated by their own funds.

A. The College discontinued the practice of providing any funding to support the Foundation or the Alumni Association, effective July 1, 2003. The Vice President for Institutional Advancement has many responsibilities, one among them being Executive Director of the Foundation. Approximately, 20% of his time is spent as Executive Director of the Foundation, and in the future, that proportion of his salary will be attributed to the Foundation.

B. *The Foundation does not own vehicles. Gold Coat funds (raised by an athletic booster group), were used to pay the insurance on two vehicles, the use of which was donated as gifts-in-kind to Athletics. One additional car is leased with Gold Coat funds. Mileage logs are kept on all vehicles, and the value of automobile personal use is included as taxable income and payroll tax is withheld, as appropriate.*

HISTORY, ORGANIZATION, AND
STATISTICAL INFORMATION

MISSOURI WESTERN STATE COLLEGE
HISTORY, ORGANIZATION, AND
STATISTICAL INFORMATION

Missouri Western State College, then St. Joseph Junior College, was founded in 1915, sharing facilities with Central High School. In 1925, the Junior College moved into its own building, the former Robidoux Polytechnic, and from then until the 1964-65 academic year, the internal life of the college underwent no drastic change. In January 1965, St. Joseph voters favored the change to a community college, and in April of that year, the name was changed to Missouri Western Junior College District. In June 1967, Dr. M.O. Looney officially assumed his role as the second president and the third administrative head of the junior college, and seven days later he announced that the name would be shortened to Missouri Western College.

Enrollment grew to 1,629, an all time high, and provisional four-year accreditation was granted to the college during the 1968-1969 academic year. In August 1969, Missouri Western College moved to its new and present location. The University of Missouri curators gave their approval to the third and fourth years of college work, an approval crucial to the establishment of the senior college program, and Missouri Western College became known as Missouri Western State College. Full state funding went into effect on July 1, 1977, and Missouri Western State College became a full member of the State of Missouri system.

In the fall of 2001 and 2002, the College's full time equivalent student enrollment was 4,093 and 4,134 respectively.

Missouri Western 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 June 30, 2003, consisted of the following members:

Name	Position	Term Ends
R. Patt Lilly	President	October 2004
Susan Colgan	Vice President	October 2006
William Hurley	Member	October 2005
Carol Moya	Member	October 2007
Janet Leachman	Member	October 2008*
Lynn Watkins	Member	October 2003
Kevin Callaway	Student Member	January 2004

* Ms. Leachman was appointed in March 2003 to replace Krikor Partamian.

The Board of Regents appoints a President to serve as the College's Chief Executive Officer. Three Vice Presidents have been appointed to oversee Academic and Student Affairs, Institutional Advancement, and Financial Planning and Administration. The following schedule lists the individuals and their annual compensation as of June 30, 2003:

Name	Position	Base Salary Per Contract	
Dr. James J. Scanlon	President	$150,000	(1)
Dr. J. David Arnold	Vice President for Academic and Student Affairs	115,000	(2)
Dr. James Roever	Interim Vice President for Institutional Advancement	106,152	(3)
Ron Olinger	Vice President for Financial Planning and Administration	97,000	(4)

(1) Dr. Scanlon was employed by the college in March 2001, replacing Acting President Dr. James McCarthy. In addition to the base salary, Dr. Scanlon's contract provides for an annual housing allowance ($24,000), annual automobile allowance ($9,000), and for the college to contribute to and/or reimburse him annually for an amount equal to his annual contribution to an optional retirement plan. In 2002, the college paid Dr. Scanlon $11,000 for the optional retirement plan. In addition, the college provides life insurance in an amount equal to two times his base salary and membership in the local country club. Also, Dr. Scanlon received a cost of living increase of $4,500, effective July 1, 2001.

(2) Dr. Arnold was employed by the college in July 2002, replacing Dr. James Roever. In addition to the base salary, Dr. Arnold's contract provides for the college to contribute to and/or reimburse him annually for an amount equal to his annual contribution to an optional retirement plan. In 2002, the college paid Dr. Arnold $6,091 for the optional retirement plan. The college also provides life insurance in an amount equal to his base salary and membership in one service organization.

(3) In addition to serving as Vice President for Academic and Student Affairs, Dr. Roever assumed additional responsibilities related to institutional advancement in February 2002, when Dr. James McCarthy retired and received an additional stipend of $5,000, for the period February to June 2002, for those additional responsibilities. In July 2002, he was appointed Interim Vice President for Institutional Advancement. Dr. Roever's contract provides for the college to reimburse him annually for an amount equivalent to his contribution to Social Security, subject to maximum annual withholdings for Social Security. In 2002, the college reimbursed him $6,960 for his contributions to Social Security. In addition, the College provides life insurance in an amount equal to his base salary and memberships in the local country club (for business purposes) and in one service organization.

(4) Ron Olinger was employed by the college in July 2002, replacing Earl Milton. In addition to the base salary, the college provides life insurance in an amount equal to his base salary and membership in one service organization.

An organization chart follows:

MISSOURI WESTERN STATE COLLEGE
ORGANIZATION CHART
JUNE 30, 2002