



Thomas A. Schweich
Missouri State Auditor

HIGHER EDUCATION

Northwest Missouri State University

September 2011
Report No. 2011-47



<http://auditor.mo.gov>



Thomas A. Schweich
Missouri State Auditor

CITIZENS SUMMARY

Findings in the audit of Northwest Missouri State University (NWMSU)

Auxiliary Services Contracts	<p>NWMSU has not solicited competitive bids or proposals for auxiliary services for years, which is required by state law. Instead, NWMSU extended and amended its food services, facilities management, vending and bookstore contracts in exchange for approximately \$1.5 million in donations or other payments to fund a stadium renovation. These amendments effectively guaranteed the continued renewal of the contracts, because NWMSU would otherwise be required to repay prorated portions of the payments. NWMSU also is not properly monitoring its food services and facilities management contracts. It does not check the accuracy of weekly sales reports or the calculation of commissions remitted, the facilities management joint review committee has not met since July 2008, and the facilities management services contractor has not submitted an annual report since fiscal year 2006.</p>
Former President's Employment Contract	<p>The former President's employment contract included payments which may have been in violation of the Missouri Constitution. Former President Dr. Hubbard was paid \$224,762 for the year after he stepped down as President, he and his spouse received health and accident insurance for 2 years after his resignation as President, and NWMSU paid \$8,930 to move his personal property and furnishings to his new residence in Kansas City. Dr. Hubbard also received \$30,000 from the Northwest Foundation in March 2009 in recognition of his 25 years of service to NWMSU and to compensate him because he had not been provided a vehicle for 6 years, even though he had received \$1,800 a month for a vehicle allowance. Dr. Hubbard's 2004 employment agreement also entitled him to an annual miscellaneous personal expense allowance of \$12,500, and yet, in a 2 year period, Dr. Hubbard used his purchasing card to charge nearly \$3,000 for meal expenses instead of paying for them from this personal expense allowance.</p> <p>It appears Dr. Hubbard performed some services for NWMSU during the year after he resigned as President. It is not clear whether such services justified the salary and benefits provided. Moreover, the Missouri Constitution forbids payments to public officials in recognition of past services.</p>
Northwest Foundation	<p>In a 3 year period, NWMSU subsidized over \$3.3 million of the operating costs of the Northwest Foundation, a not-for-profit corporation, in apparent violation of the Missouri Constitution. Moreover, NWMSU and the Northwest Foundation have not entered into a written agreement defining the objectives of any collaboration and the parties' respective obligations.</p>
Contract Controls and Procedures	<p>NWMSU needs to improve its controls and procedures for managing contracted services to avoid overpaying for services and to ensure services provided are in accordance with contract terms.</p>
Room and Board Charges	<p>NWMSU raised room and board rates in each of the last 4 years but does not maintain documentation of the annual reviews to show how rates are determined.</p>

Program Operating Results and Related Subsidies	NWMSU incurs significant operating losses operating 3 programs for preschool to high school children. The NWMSU accounting system is not capable of separately reporting operating results for various programs and operating segments.
Real Estate Acquisitions	At the request of NWMSU officials, the Northwest Foundation purchased a parcel of property in 2004 for \$475,000 and one in 2007 for \$501,060, but there are no specific plans for their use, and no appraisals were conducted before the purchases to determine the fair market value of the parcels.
University-Owned Airplane	NWMSU should perform a cost-benefit analysis to determine whether the continued ownership of its airplane is justified, and NWMSU policy should require that the cost of alternative travel methods be considered prior to authorization of a flight on the university-owned airplane.
Cash Receipts	Internal controls over cash receipts need improvement. The Bursar's office does not record and restrictively endorse checks immediately upon receipt, receipts slips are not always given, and monies collected are not always deposited intact. Monies collected for football camps and student meal cards are not reconciled to amounts remitted to the Bursar's office, and tickets for performing arts and athletic events are not accounted for properly.
Capital Assets	Capital asset records are not accurate and contain assets that are likely no longer owned by NWMSU. A complete physical inventory of capital assets has not been conducted for at least 15 years, and no formal policy exists requiring notification when capital assets are disposed of or relocated.
Computer Security	NWMSU lacks an adequate disaster recovery plan, and supervisors do not periodically review user accounts to prevent unauthorized computer access.

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

American Recovery and Reinvestment Act 2009 (Federal Stimulus)	NWMSU was awarded \$4,049,576 from Federal Budget Stabilization - Education Funds, which it received and spent in the year ended June 30, 2010, to retain 76 current employees and create 8 new positions. NWMSU also received a \$55,979 Recovery Act: Federal Work-Study Grant, which it received and spent in the year ended June 30, 2010, to create 6 new work-study positions.
--	--

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

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

All reports are available on our website: <http://auditor.mo.gov>

Northwest Missouri State University

Table of Contents

State Auditor's Report	2
------------------------	---

Management Advisory Report - State Auditor's Findings	1. Auxiliary Services Contracts.....4 2. Former President's Employment Contract.....10 3. Northwest Foundation13 4. Contract Controls and Procedures16 5. Room and Board Charges.....16 6. Program Operating Results and Related Subsidies17 7. Real Estate Acquisitions.....21 8. University-Owned Airplane23 9. Cash Receipts24 10. Capital Assets27 11. Computer Security.....29
---	---

Organization and Statistical Information	31
---	----

Appendixes

A	Revenues, Expenses, and Changes in Net Assets, 3 Years Ended June 30, 2010.....	34
B	Organization Chart	35



THOMAS A. SCHWEICH

Missouri State Auditor

Honorable Jeremiah W. (Jay) Nixon, Governor
and
Board of Regents
and
Dr. John Jasinski, President
Northwest Missouri State University
Maryville, Missouri

We have audited certain operations of Northwest Missouri State University in fulfillment of our duties under Chapter 29, RSMo. The university engaged BKD, LLP, Certified Public Accountants (CPAs), to audit the university's financial statements for the years ended June 30, 2010, 2009 and 2008. We reviewed the reports and substantiating working papers of the CPA firm for the years ended June 30, 2009 and 2008, since the year ended June 30, 2010, audit had not been completed, and performed other procedures that we considered necessary in the circumstances. The scope of our audit included, but was not necessarily limited to, the years ended June 30, 2010, 2009, and 2008. The objectives of our audit were to:

1. Evaluate the university's internal controls over significant management and financial functions.
2. Evaluate the university's compliance with certain legal provisions.
3. Evaluate the economy and efficiency of certain management practices and operations, including certain financial transactions.
4. Evaluate selected records and activities of the Northwest Foundation.

Our methodology included reviewing minutes of meetings, written policies and procedures, financial records, and other pertinent documents; interviewing various personnel of the university, as well as certain external parties; and testing selected transactions. We obtained an understanding of internal controls that are significant within the context of the audit objectives and assessed whether such controls have been properly designed and placed in operation. We tested certain of those controls to obtain evidence regarding the effectiveness of their design and operation. We also obtained an understanding of legal provisions that are significant within the context of the audit objectives, and we assessed the risk that illegal acts, including fraud, and violations of contract, grant agreement, or other legal provisions could occur. Based on that risk assessment, we designed and performed procedures to provide reasonable assurance of detecting instances of noncompliance significant to those provisions.

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

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

For the areas audited, we identified (1) deficiencies in internal controls, (2) noncompliance with legal provisions, (3) the need for improvement in management practices and procedures, and (4) weaknesses with select records and procedures of the university's foundation. The accompanying Management Advisory Report presents our findings arising from our audit of Northwest Missouri State University.



Thomas A. Schweich
State Auditor

The following auditors participated in the preparation of this report:

Director of Audits:	John Luetkemeyer, CPA
Audit Manager:	Gregory A. Slinkard, CPA, CIA
In-Charge Auditor:	Gayle A. Garrison
Audit Staff:	Deborah Whitis, MBA, CPA, CIA
	Kenneth Erfurth

Northwest Missouri State University

Management Advisory Report

State Auditor's Findings

1. Auxiliary Services Contracts

The university has historically contracted with outside vendors for various auxiliary services, including facilities management, food services, vending, and operation of a campus book store. However, the university did not obtain competitive bids, as required by state law in procuring these services. Instead the related contracts were extended in consideration for significant donations made by the vendors. The university obtained a \$2 million loan from one contractor without evidence the loan agreement was approved by the Board of Regents or reviewed by legal counsel. In addition, contract revenues and some contract provisions were not properly monitored.

1.1 Contract procurement and vendor donations

The university has not solicited competitive bids or proposals related to various contracts for a number of years and is not in compliance with state purchasing law or the delegated purchasing authority granted it by the Office of Administration, Division of Purchasing and Materials Management, pursuant to Section 34.100, RSMo. Instead, the university extended the related contracts through 2017, at least in part, because of approximately \$1.5 million in donations or other payments the vendors made to the university's foundation to help fund a stadium renovation.

- The facilities management services contract relates to custodial, maintenance, and grounds support services provided by a contractor throughout the university's campus and grounds. The university expended over \$3.9 million during the 3 years ended June 30, 2010, pursuant to this contract. The contract for these services allows for annual price increases not to exceed 3 percent. Also, contract amendments have allowed for price increases due to increases in the minimum wage and increases in square footage assigned to the contractor.

At the time of our review, the university had not competitively bid this contract since 1997. In that year, the university entered into a facilities management services contract after a competitive bidding process. The contract was for 1 year with nine additional 1-year renewal options. In November 2001, another company (Company A) acquired the contractor and assumed responsibility for this contract.

In March 2002, the university amended the contract to require the contractor to lease a football stadium suite for \$10,000 per year (the standard lease amount for suites) for 12 years (well after all renewal options of the original contract expired). The amendment states the lease payments are contingent upon the continuation of the facility management services contract.

In January 2003, the university again amended the contract to require the contractor to contribute \$500,000 in June 2007 (the month the 1997 contract was set to expire) to the Northwest Foundation Stadium



Northwest Missouri State University
Management Advisory Report - State Auditor's Findings

Campaign Fund. This contract amendment requires the university to repay a prorated portion of the donation to the contractor if the contract is not renewed during the period from July 2007 through June 2017 (well after all renewal options of the original contract expired).

In 2007, after exercising the nine annual renewal options related to the 1997 contract, the university decided to extend the contract without soliciting competitive bids. The contract was extended for 1 year with nine annual renewal options. If the university chooses not to exercise the annual renewal options, a prorated portion of the \$500,000 donation will have to be repaid to the contractor. This decision effectively extended this contract through 2017 (subject to annual renewal).

- The food services contract relates to all food operations provided to students, faculty and employees, and other individuals on campus. The university expended over \$24.7 million (net of commission revenues) during the 3 years ended June 30, 2010, pursuant to this contract. These expenditures were substantially offset by revenues related to student meal plans and other food service revenues. Most dining services are purchased as prepaid meal plans by students. The university and the contractor negotiate meal prices (including several semester based meal plans) and other contract services each year taking into consideration the consumer price index for food, changes in the employee pay plan, and increases in operating costs. The vendor accounts for sales and bills the university for all sales less a commission retained by the university. Commission percentages have been approximately 8 percent since 2007.

Similar to the facilities management contract, the university has not competitively bid this contract since 1997. In that year, the university entered into a food services contract (with Company A) after a competitive bidding process. The contract was for 1 year with nine additional 1-year renewal options.

In November 2001, the university amended the contract to require the contractor to contribute \$500,000 in two installments (in May 2002 and May 2003) to the Northwest Foundation Stadium Campaign Fund. This contract amendment requires the university to repay a prorated portion of the donation if the contract is not renewed during the period June 2002 through May 2017 (well after all renewal options of the original contract expired).

In 2007, after exercising the nine annual renewal options related to the 1997 contract, the university decided to extend the contract without soliciting competitive bids. The contract extension was for 1 year with nine annual renewal options. If the university chooses not to exercise



Northwest Missouri State University
Management Advisory Report - State Auditor's Findings

the annual renewal options, a prorated portion of the \$500,000 donation will have to be repaid to the contractor. This decision effectively extended this contract through 2017 (subject to annual renewal).

- In September 2001, the university amended a multi-year contract for beverage vending services. Pursuant to the contract amendment, the vending contractor was required to contribute \$50,000 per year to the Northwest Foundation Stadium Campaign Fund for 6 years beginning in June 2002. This contract required the university to repay a prorated portion of the donation to the contractor if the contract was not renewed during a 10-year period through May 2012.

The university canceled this vending contract effective May 2008. Instead of soliciting competitive bids for these vending services, the university added these services to the contract of the food services contractor (Company A). The cancellation of the contract obligated the university to repay \$120,000 to the vending contractor; however, that contractor forgave the entire amount owed, at least in part because it received a significant market share (70 percent) of the beverages sold on campus through May 2012.

- Since 1985 the university has contracted with a company to operate the campus book store for the sale of merchandise and textbooks not handled by the university's textbook rental service. The contract limits profit margins on textbooks and allows the vendor to set prices on other stock items. The contractor retains all sales revenue but is required to pay sales commissions to the university. The university received over \$214,000 in sales commission revenues during the 3 years ended June 30, 2010, from the book store contractor.

The university has not competitively bid this contract since 1978. According to contract information, the contractor agreed to contribute \$15,000 a year (totaling \$75,000) to the Northwest Foundation Stadium Campaign Fund for 5 years beginning in October 2001. This donation was contingent upon contract renewal through July 2009.

In 2007, the university extended the contract without soliciting competitive bids. The new contract was for 1 year with nine additional 1-year renewal options. Besides a financial commitment to renovate and equip the bookstore, the contractor agreed to make a \$50,000 unrestricted donation contingent upon contract renewals during the 10-year period.

The table below presents the donation/payment schedules included in the various contracts (including football suite lease payments) from fiscal year 2002 through 2010:



Northwest Missouri State University
 Management Advisory Report - State Auditor's Findings

Fiscal Year Ended	Facilities			
	Management	Food	Vending	Bookstore
June 30, 2002	\$	250,000	50,000	15,000
June 30, 2003		250,000	50,000	15,000
June 30, 2004	10,000		50,000	15,000
June 30, 2005	10,000		50,000	15,000
June 30, 2006	10,000		50,000	15,000
June 30, 2007	510,000		50,000	
June 30, 2008	10,000			50,000
June 30, 2009	10,000			
June 30, 2010	10,000			
Total	\$ 570,000	500,000	300,000	125,000

Significant legal concerns were noted regarding the university's handling of these contracts. Under a delegation of authority granted by the Missouri Office of Administration, Division of Purchasing and Materials Management, the university is subject to state purchasing requirements outlined in Chapter 34, RSMo, which require competitive bids be solicited for purchases of \$3,000 or more and advertising for bids for purchases of \$25,000 or more. The university provided documentation indicating it recognized the facility management services and food services contracts were due to be re-bid in 2007; however, university officials believed they were justified in extending those contracts because of a good performance history of the contractors and the high cost to potential bidders in developing a proposal. According to the documentation provided, the university officials believed other vendors would not submit a bid if a high level of satisfaction already existed with the current service provider. Neither of these alleged reasons justifies not bidding these services as required by statute.

Chapter 34, RSMo, and the delegation of authority allow for the competitive bidding requirements to be waived for certain specified reasons, including single feasible source procurements as outlined in Section 34.044, RSMo; however, university officials indicated they did not consider these contracts to be single feasible source procurements or any of the other specific bidding exceptions allowed by law.

In addition, 1 CSR 40-1.050(8) allows contracts to be amended if they do not significantly alter the original intent and scope of the contract. However, the university's contract amendments requiring donations from the service providers while at the same time binding itself to the renewal options (by having to repay a portion of the donation if it did not exercise the annual renewal options) appears to have significantly altered the intent and scope of the original contracts. As a result, the university was not justified in exercising the annual renewal options related to the original contracts.



Northwest Missouri State University
Management Advisory Report - State Auditor's Findings

The university's handling of these contracts created a disincentive to re-bid the contracts and award them to another vendor due to the payback requirements set forth in the related contract amendments.

1.2 Loan

The university obtained a \$2 million loan from Company A in May 2007 in conjunction with a contract amendment. The contract amendment specified the loan was for capital improvements to dining services equipment and venues in campus dining. There was no documentation or other evidence to indicate the loan agreement was reviewed by legal counsel or approved by the Board of Regents.

The interest-free loan repayment schedule called for five annual payments of \$400,000, beginning on September 15, 2007. Similar to the contract provisions related to the donations, the terms of the loan also require the university to repay the remaining balance of the loan immediately if the university cancels the contract with the vendor.

To ensure the propriety of any debt obligations entered into, loans should be reviewed by legal counsel and properly approved by the Board of Regents.

1.3 Contract compliance

Contract revenues and services are not properly monitored. The university does not have established procedures to verify the accuracy of reported food services sales which are the basis of commissions paid to the university. In addition, some requirements of the facilities management contract have not been fulfilled.

- The university receives sales commissions from the contractor's food services and vending sales. Although the university receives weekly sales reports from the contractor and verifies the computed commissions, it appears these reports are summary spreadsheets prepared by the contractor. University personnel indicated they do not periodically compare these reports to original sales documentation to verify that sales reported to the university are accurate.
- The facilities management joint review committee has not met since July 2008. The contract established a joint review committee for the purpose of holding regular monthly consultations on the performance of services being provided.
- The facilities management services contractor has not provided annual reports summarizing the activity of the environmental services department since fiscal year 2006. The contract requires the vendor to submit an annual report to the university.

To ensure contracted services are adequately performed and commissions are correctly calculated, the university should improve its oversight and



Northwest Missouri State University
Management Advisory Report - State Auditor's Findings

control over the food services and facilities management contracts. This would include periodic verification of reported sales to original sales documentation. In addition, the university should ensure regular meetings of the joint review committee are held and annual reports of the environmental services department are submitted as required.

Recommendations

The Board of Regents:

- 1.1 Solicit competitive bids or proposals for the auxiliary services contracts in accordance with state law and the delegation of authority granted by the Missouri Office of Administration, Division of Purchasing and Materials Management. The university should also reevaluate the practice of entering into long-term contracts and discontinue the practice of accepting vendor donations which are contingent upon contract renewals.
- 1.2 Ensure any loans obtained by the university are properly reviewed by legal counsel and approved by the Board of Regents.
- 1.3 Ensure university officials exercise proper oversight and control over the auxiliary service contracts. The university should periodically verify reported sales to the vendor's original sales documentation and ensure compliance with the oversight provisions of the auxiliary service contracts.

Auditee's Response

- 1.1 *The Board of Regents agrees that the University should be open and transparent in all purchasing transactions. The Board believes in competitive bids/proposals which will lower the cost of books, food and housing and thus save the students money and keep college affordable.*

The University is currently reviewing these auxiliary services contracts and proposals for these services will be issued and contracts awarded as soon as possible but not later than the next 24 to 36 months in accordance with state law.

- 1.2 *The University agrees in the future to not accept loans and/or donations from vendors for leases, or lease extensions. The University agrees that any future loans will be reviewed by legal counsel and approved by the Board of Regents.*
- 1.3 *The University agrees that contract oversight is important, and is in the process of re-establishing and revising the criteria and review process. In addition, the Finance Department of the University currently reviews vendor summary sales reports and will implement*



periodic verifications of these summary reports to the original sales documentation.

2. Former President's Employment Contract

The Board of Regents' decision to include a transition year in the former President's employment contract and pay him substantial compensation and benefits have violated the Missouri Constitution which prohibits the payment of compensation for services previously rendered and/or may not have been in the best interest of the university. In addition, some payments made to this individual while he was still University President did not require him to account for costs incurred and/or have been excessive.

In 2004, the Northwest Missouri State University (NWMSU) Board of Regents and former President Hubbard executed an employment contract which covered a 6 year period ended June 30, 2010. The contract indicated that Dr. Hubbard intended to retire as the university's President after June 30, 2009, and it provided that if the Board was successful in finding a suitable replacement by that date, the former President would be employed by the university to serve in a transition role during the year ended June 30, 2010. The former President stepped down as University President effective July 1, 2009, after serving in that position for 25 years. The former President then subsequently served in a transition role for a year as provided by the contract.

2.1 Transition year compensation

The compensation and benefits provided to the former President after he retired were substantial and perhaps disproportionate to the services he provided to the university during this time period and may have been provided primarily in appreciation for past service and not in the best interest of the university. Article III, Section 39, Missouri Constitution, prohibits the granting of additional compensation to public officials for past service.

The employment contract approved by the Board of Regents in 2004 provided the former President's salary during the transition year was to be no less than the salary paid him during the last year he served as President of the university. As a result, the former President received a salary of \$224,762 during the transition year (an amount equal to the base salary of his last year as University President). The 2004 employment contract did not specify duties to be provided by the former President during the transition year, but provided he would perform such duties as outlined by the new President and approved by the Board of Regents.

The Board of Regents hired a new President who assumed the duties of that position effective July 1, 2009. During the transition year the former President submitted monthly activity reports to the new University President which summarized activities he was involved in on behalf of the university.



Northwest Missouri State University
Management Advisory Report - State Auditor's Findings

While some of the activities appeared to benefit the university directly, others did not. Some of the activities reported included:

- Teaching at least two classes, one class for NWMSU and a graduate-level class for an out-of-state university
- Performing statistical and financial analysis for the university
- Seeking additional grants and external funding
- Writing an education-related blog and/or articles for the Kansas City Star
- Serving on a higher education-related foundation board
- Speaking at various engagements

The new President indicated a primary benefit of the former President's services/activities during the transition year was to help maintain and/or build current and future relationships between outside parties (particularly donors) and the university's new leadership.

Other benefits

In addition to the salary paid during the transition year, the 2004 employment contract provided the former President would receive hospitalization, major medical, travel risk, and long-term disability insurance during the transition year and for a year following the transition year. In addition, the contract provided the university would provide health and accident insurance for the former President's dependents (his wife) during this 2 year period. The insurance and other benefits cost the university \$30,140.

The 2004 employment contract also provided the university would 1) pay for suitable housing for the former President during the transition year if the former President lived in Maryville, and 2) pay all necessary moving and relocation expenses in vacating the university-provided home. When the former University President retired in July 2009, he was not required to live in Maryville. As a result, the university incurred costs of \$8,930 to move the personal property and furnishings of the former President to his new place of residence in Kansas City.

While it is apparent the former President provided some services to the university during the transition year of his contract, it is not clear to what extent those services benefited or assisted the university's new leadership or whether the services justified the substantial salary and benefits provided. In addition, it appears the inclusion of the transition year and related compensation and benefits included in the former President's contract may have been provided primarily in appreciation for past service. While it is understandable the Board of Regents would appreciate and might want to recognize the contributions of the former President in a monetary way, it is not legal to do so.



Northwest Missouri State University
Management Advisory Report - State Auditor's Findings

It should also be noted in March 2009 the Northwest Foundation paid the former President \$30,000 pursuant to a formal agreement entered into the previous month between the foundation and the former President. That agreement indicated this payment was in partial consideration of the former President's 25 years of distinguished service to the university and to compensate for the fact he had not had a motor vehicle furnished to him since 2003. This payment was made even though the former President had been paid a monthly vehicle allowance by the university, as reported below.

2.2 Other payments

Some employment-related allowances paid to the former President during his employment did not require him to account for actual costs incurred and/or appeared excessive.

Expense allowance

The former President's 2004 employment contract provided for an annual \$12,500 miscellaneous personal expense allowance that was paid in equal monthly installments. However, the former President was not required to account for the use of the allowance. The allowance was intended to cover the cost of meals and miscellaneous travel and entertainment expenses. While he was still President, we noted meal purchases totaling \$2,975 during the 2 years ended June 30, 2009, which were made using the President's purchasing card. It was not clear whether these expenses should have been paid by the former President using his expense allowance funds.

In contrast, the contract of the current President does not provide for a personal expense allowance. Instead a budgeted expense reimbursement account of up to \$12,500 has been provided. The current President is only paid for actual expenses incurred, supported by documentation and submitted for reimbursement in accordance with the university expense reimbursement policy.

Vehicle allowance

The university did not perform and document a cost analysis to support a vehicle allowance paid to its President. The university amended the former President's 2004 employment contract in May 2007 to provide for an annual \$21,600 vehicle expense allowance, which was paid to the former President in equal monthly installments of \$1,800. In contrast, the contract of the current President provides for an annual \$10,800 vehicle expense allowance, payable in equal monthly installments of \$900.

The practice of providing personal and vehicle expense allowances without requiring an accounting of actual costs incurred or periodically reviewing the reasonableness of amounts paid, does not ensure university funds are used in a reasonable and necessary manner.



Northwest Missouri State University
Management Advisory Report - State Auditor's Findings

Recommendations

The Board of Regents:

- 2.1 Ensure future employment contracts with the University President comply with state law and properly safeguard university interests.
- 2.2 Require the University President to account for actual expenses incurred, or periodically review the reasonableness of any allowances provided.

Auditee's Response

- 2.1 *The Board of Regents agrees that the 2004 President's contract may have violated the spirit of the Missouri Constitution. The Board of Regents in 2009 corrected many items and now requires documentation for actual expenses incurred and now provides a more realistic market based car expense allowance, approximately half of the 2004 allowance.*

We recommend that the Board Secretary provide all new and future Board of Regents a copy of this audit report.

We also encourage future Board of Regents to obtain a written legal opinion on future Presidents' contracts and amendments.

The Board of Regents met July 30, 2009, and took timely and appropriate action, by directing the President to develop a work plan for the former President for the remaining 11 months of the contract. The President and Board developed a six point work plan that held the former President accountable and met the needs of the University.

The Board of Regents will continue to have its legal counsel advising it with regard to future employment contracts for the University President. The contract with the prior President was reviewed and addressed. The current President's contract meets with all of the requirements of Missouri law and addresses the issues identified.

- 2.2 *The Board of Regents will review the reasonableness of any allowances provided with each contract renewal cycle and generally on an annual basis.*

3. Northwest Foundation

The university subsidizes a significant amount of operating expenses of its foundation. Subsidies totaled over \$3.3 million during the 3 years ended June 30, 2010. This practice does not appear to be appropriate and may violate provisions of the Missouri Constitution. In addition, the university has no formal contract or agreement with the foundation to document the duties and responsibilities of both parties.



Northwest Missouri State University
Management Advisory Report - State Auditor's Findings

The Northwest Foundation (the foundation) was established in 1971 as a 501(c)(3) not-for-profit corporation. The purpose of the foundation is to obtain financial donations to be used for the promotion of the welfare, goals, and programs of the university and to enhance the educational offerings and facilities of NWMSU. A Board of Directors manages the business and affairs of the foundation, and the university's Vice President of University Advancement serves as its Executive Director.

During the 3 years ended June 30, 2010, the foundation expended almost \$9 million for scholarships and other university programs and operations. The foundation has also incurred debt on behalf of the university since 2003 to finance renovations, construction, and real estate acquisitions totaling over \$13 million. The related assets are, or will ultimately become, property owned by the university through lease-purchase payments. Debt service payments are funded through revenues generated by the projects, university funds, and foundation investment income.

3.1 University subsidies

The university subsidizes a substantial portion of the operating costs of the foundation, financing over \$3.3 million of foundation-related expenses during the 3 years ended June 30, 2010, which may violate the Missouri Constitution. Over \$2.5 million of this amount represents salary and benefit costs of university-paid employees who perform duties for the foundation.

The Executive Director of the foundation indicated 13 non-student employees in the foundation's Advancement, Alumni Relations, and Development Office perform work for both the university and the foundation. However, the records of time worked do not indicate whether the work was related to foundation or university matters. Although salaries for these employees are paid entirely from university funds, the foundation only reimburses the university for salaries of the foundation finance officer, a percentage of the salary of a development officer, and in some years the salary of a student employee. These salary reimbursements totaled approximately \$406,000 during the 3 years ended June 30, 2010.

Foundation and university officials indicated the foundation is able to finance the costs of some of its functions but is not currently able to be financially independent of the university.

The practice of subsidizing the foundation with university funds appears to constitute the granting or lending of public funds to a private entity, which is prohibited by Article III, Section 38(a) and Article III, Section 39(1), Missouri Constitution.

3.2 No formal agreement between university and foundation

A formal agreement between the university and foundation has not been established although there is much activity and collaboration between the university and foundation.



Northwest Missouri State University
Management Advisory Report - State Auditor's Findings

A formal agreement is necessary to ensure the university and foundation are aware of their duties and responsibilities and to provide protection to both parties. Such an agreement might include, but not necessarily be limited to, the overall goals and objectives of the partnership between the entities; anticipated activities, such as scholarship and other direct support provided to the university by the foundation; direct support, accounting system services, and equipment management services provided to the foundation by the university; and guidelines for collaborative efforts on property development, real estate acquisitions, and financing obtained for the university.

An internal audit of the foundation also recommended the foundation document its relationship with the university in a written agreement.

Recommendations

The Board of Regents:

- 3.1 Discontinue the practice of subsidizing the operations and activities of the foundation. If this cannot be done in the short term, efforts should be made to reduce university subsidies, with the eventual goal that the foundation be financially independent of the university.
- 3.2 Enter into a written agreement with the foundation that documents the duties and responsibilities of both parties.

Auditee's Response

- 3.1 *The sole purpose of the Foundation is to support the mission of the University. Any University assets used by the Foundation's operations are, in turn, used to generate external funds for the operation of the University. Functions of University Advancement staff would be necessary whether there was a separate 501(c) (3) organization or not. All activities of the development and alumni staff benefit the University. The benefits to the University far outweigh the use by the Foundation of University assets. Future operations of the University will benefit from planned gifts and from endowed gifts to the University that were solicited by development personnel. Investment in fundraising activities is a prudent investment and would be emphasized by the University even in the absence of a separate foundation. The University's facilities have also benefitted from the Foundation incurring significant debt to finance the \$4.4 million renovation to the football stadium and \$7.675 million for other University buildings.*

As the Northwest Foundation matures, the University and the Foundation will work together to carefully monitor the mutual relationship.



3.2 *The Northwest Foundation Board of Directors and the Northwest Board of Regents are working to adopt a formal memorandum of understanding that details the relationship between the University and the Foundation and are working toward a goal of completing said agreement within the next 90 days.*

4. Contract Controls and Procedures

Controls and procedures for the management of contracted services need to be improved. University personnel do not adequately agree invoices for contracted services to the terms of the contracts.

- In three instances, the university processed and paid billings for auditing services which included balances carried forward from the previous billing statement. However, the university had previously paid these amounts resulting in overpayments totaling \$23,507. The independent auditing firm which provided the services detected the overpayments and notified the university to make corrections in subsequent payments.
- The university paid for additional accounting and auditing-related services totaling \$3,930, even though the contractor billing invoices did not provide adequate details regarding the hours billed or whether the hourly rate charged for these services was in accordance with the terms of the contract.
- University personnel indicated contracted billing rates or other contract terms are not usually verified with invoices received from the collection agency service vendors. The responsible personnel indicated only the first few invoices of a contract period are verified with the contract terms.

The university should establish adequate procedures for the review and payment of contracted service billings. Without such procedures there is less assurance the payments are proper and in compliance with the contract provisions.

Recommendation

The Board of Regents establish adequate procedures for the review and payment of contracted service billings to ensure payments related to such services are proper and in accordance with the terms of the contracts.

Auditee's Response

The Vice President of Finance is evaluating procedures related to review and payment of contracted services to ensure payment in accordance with the terms of the contracts. An overview of the procedures will be communicated to the campus community within the next 12 months.

5. Room and Board Charges

The university does not adequately document the annual reviews of its room and board rates.



The university increased room and board rates in each of the last 4 years; however, the university's documentation of the annual reviews of its rates, including how any related increases are calculated or determined, is not adequate. The following table presents room and board fees for typical full-time students.

Academic Year	Amount
2010-2011	\$ 7,250
2009-2010	6,790
2008-2009	6,590
2007-2008	6,276

Although the university indicated room and board planned expenditures are reviewed when determining the room and board increases, there was no documentation maintained to support how the university calculated the approved rates. Without adequate documentation supporting how room and board rates are determined, there is less assurance all related expenses are considered and rates have been set appropriately.

Recommendation

The Board of Regents ensure university officials document and maintain justification for room and board rates charged to students.

Auditee's Response

The University Administration uses a systematic process for setting room and board rates including an annual review of associated costs and comparative benchmarks to determine competitive rates. The University has formally documented the process and will ensure appropriate documentation is maintained and the process followed for subsequent reviews.

6. Program Operating Results and Related Subsidies

The university operates three education programs on campus for preschool through high school age children which incur substantial operating losses. In addition, the accounting system is not capable of reporting operating results of the various programs and individual operating segments of the university.

6.1 Children's education programs

The university operates three on-campus educational programs for children which appear to be operating at significant losses and are subsidized by other university funds. In addition, the university has not performed cost-benefit analyses of these programs.

- The Early Childhood Center is a state-licensed preschool facility that provides child care and educational services for preschool-aged children in the Maryville area. During the 2009-2010 school year, the preschool served a total of 43 children.



Northwest Missouri State University
Management Advisory Report - State Auditor's Findings

As of June 2010, the preschool program employed two full-time and two part-time employees. Besides providing child care/preschool services, this program provides various training and classroom opportunities for several degree programs in the Family and Consumer Sciences Department.

During the 2009-2010 school year, the preschool charged fees between \$63 and \$348 per child per month, depending on the number of days the child attended the preschool each week and whether the child was there all day or a partial day. University employees and students do not receive a discount for using this service.

The table below presents the operating results (based on the financial information available) of the preschool during the three most recently completed school years. The revenues presented represent the fees charged for the preschool services. The expenditures were funded from the preschool revenues collected and general operating revenues of the university.

Early Childhood Center - Operating Results				
		School Year		
		2009-2010	2008-2009	2007-2008
Revenues	\$	106,904	109,619	107,134
Expenditures		(208,398)	(218,501)	(267,758)
Operating Losses	\$	(101,494)	(108,882)	(106,624)

Amounts in the table do not consider various overhead costs (including utilities, maintenance, custodial, and insurance costs) or tuition revenues from related degree programs.

- The Horace Mann Laboratory School is a kindergarten through 6th grade (K-6) elementary school that has provided educational services for elementary school-aged children in the Maryville area since the early 1900s. During the 2009-2010 school year, the K-6 school served 114 students.

As of June 2010, the K-6 school employed eight full-time and eight part-time employees. Similar to the preschool, the K-6 school provides training and classroom opportunities for university students in the College of Education and the Department of Family and Consumer Sciences.

During the 2009-2010 school year, the K-6 school program charged tuition of \$700 annually per student but provided discounts ranging from 18 percent to 48 percent if multiple children in the same family were enrolled.



Northwest Missouri State University
Management Advisory Report - State Auditor's Findings

The table below presents the operating results (based on the financial information available) of the K-6 school during the three most recently completed school years. The revenues presented represent the tuition charged for the K-6 school services. The expenditures were funded from the K-6 school revenues collected and general operating revenues of the university.

Horace Mann (K-6) Laboratory School - Operating Results				
		School Year		
		2009-2010	2008-2009	2007-2008
Revenues	\$	74,146	62,676	47,356
Expenditures		(746,703)	(726,466)	(725,458)
Operating Losses	\$	(672,557)	(663,790)	(678,102)

Similar to the preschool, amounts in the table do not consider various overhead costs or tuition revenues from related degree programs.

- The Missouri Academy (the academy) is a 2 year dual-enrollment high school/associate degree program established in August 2000 that provides educational services to high school-aged students. Academy students live on campus and attend university classes. The academy program provides residential and educational services to students in 11th and 12th grades and is available to students of any state and to international students. During the 2009-2010 school year, the academy served 200 high school-aged children.

As of June 2010, the academy program employed 15 full-time staff, 3 graduate assistants, and 1 part-time staff in administrative and live-in residential life counselor positions. Students in the academy program earn both a high school diploma and an associate of science degree. The mission of the program includes preparing academy graduates to succeed in science, mathematics, and technology programs in higher education institutions. The academy was established with the support of the Missouri General Assembly and during the early years of the program the university received an additional appropriation from the state to help fund its operations.

Academy tuition and fees per credit hour and room and board rates are comparable to amounts charged to students in undergraduate programs; however, significant discounts are offered to academy students. The discounts allow academy students to participate in the program for free or at a greatly reduced cost. Information provided by academy officials indicated revenues chargeable to academy students totaled as much as \$2.8 million annually; however, these revenues were reduced by discounts to students of 100 percent, 80 percent, and 66 percent during the years ended June 30, 2008, 2009, and 2010, respectively.



Northwest Missouri State University
Management Advisory Report - State Auditor's Findings

University financial records indicated approximately \$3 million was expended annually during the 3 years ended June 30, 2010, for direct costs related to the academy, including administrative and residential counselor staff salaries and other direct expenses. However, these expenditures do not include the salary costs of instructors since the students are integrated in classrooms with regular university students.

University financial records did not separately identify the revenues and expenditures of the academy to allow us to present the operating results of the program; however, it is apparent the academy's operations are heavily subsidized with general operating funds of the university.

These programs and other areas of the university that operate at a loss should be carefully analyzed for ways to make them more cost effective and ensure resources used for educational purposes are maximized. While it may be necessary or desirable to fund or subsidize certain programs and operations, funding and subsidies should be reviewed periodically to ensure activities are operated efficiently and continue to be in the best interest of the university.

6.2 Determination of operating results

The university upgraded its financial accounting software in January 2009; however, the accounting system is not capable of reporting operating results of the university's various programs and individual operating segments. As a result, such information is not available to assist university management in making informed decisions.

During our review of the children's education programs discussed above, we noted the university's accounting system does not adequately account for all revenues and expenditures of an individual program or segment of the university and does not generate sufficient information to determine if a program/segment is producing sufficient revenue to meet the related expenditures. We also noted this situation during our review of the university's extended campuses and certain auxiliary operations.

The university needs to consider how it might enhance its current accounting system to allow its management to better evaluate operating results of the various programs and operating segments of the university.

Recommendations

The Board of Regents:

- 6.1 Ensure university officials analyze the Early Childhood Center, Horace Mann Laboratory School, and Missouri Academy programs to determine whether to continue to operate these programs and/or how they might be operated at a level which is more self-sustaining.



Auditee's Response

6.2 Ensure university officials consider how to enhance the accounting system to allow management to better evaluate operating results of its various programs and operating segments.

6.1 *The University routinely evaluates the financial feasibility of each of its academic programs to ensure that education provided by that program is as cost effective as possible. The Horace Mann Laboratory School and the Early Childhood Education and Care Laboratory are laboratories which exist because of academic programs to which they are linked, and therefore those laboratories are considered in the overall cost benefit analysis that is consistently reviewed for each such program. The University does not break down a particular aspect of a program, such as a laboratory, to evaluate whether it is self-sustaining but rather reviews the program as a whole, taking into account, among other things, the tuition and fees generated by students who are enrolled in that program. Northwest, established in 1905 as a Normal School, has a long tradition for preparing teachers, and these initiatives are consistent with that mission and inextricably linked to our academic programs. These laboratories do not exist primarily for the pre-K through grade 6 students, but, rather, are one aspect of the program for University students majoring in teacher education. The University will continue to monitor operations on a regular basis.*

6.2 *As stated above, the University systematically evaluates each education program to determine, among other things, the cost-benefit analysis of each such program. The University will continue to review the evaluation process, including the accounting aspects of such programs, to improve the ultimate analysis of each program.*

7. Real Estate Acquisitions

The university does not currently have specific plans for use of two properties acquired by the university's foundation. In addition, neither the foundation nor the university obtained appraisals to determine the fair value of the properties before acquiring the properties.

The foundation purchased two properties at a cost totaling over \$976,000. These adjoining properties include a total of 66 acres and are located adjacent to the campus boundaries. One property was acquired in 2004 at a cost of \$475,000 and consisted of a home and 30 acres that were previously used as a farm. The other property was acquired in 2007 at a cost of \$501,060 and consisted of 36 acres of unimproved land.

It appears these properties were acquired at the request of university officials; however, they were purchased by the foundation on behalf of the



Northwest Missouri State University
Management Advisory Report - State Auditor's Findings

university because of the foundation's ability to obtain appropriate financing. Shortly after the properties were purchased, the university entered into lease purchase agreements with the foundation for each property. The lease agreements require the university to make annual or monthly lease payments to the foundation and maintain the properties. The university may use the property for any lawful purpose up to and including construction of buildings or support facilities on the properties. Optional purchase prices may be paid by the university through the year 2026 to acquire title to the properties. The actual ownership of the properties will ultimately transfer from the foundation to the university after all lease payments have been made or when the university elects to make optional purchase payments.

7.1 Intended property use

The university has not developed or used these properties since acquisition and does not currently have specific plans regarding future use. Based on discussions with current and former university officials, it appears the university tentatively planned to construct new baseball and softball fields on these properties; however, these projects were not started, at least in part, due to economic and budgetary concerns.

The university's current administration is not committed to the projects previously planned, and the current President indicated the university's leadership team has begun the process of developing a long term strategic plan which will include consideration of the best use of existing properties.

To ensure the best and appropriate use of these properties, university officials should include the use of these properties in the long term strategic plan, taking into consideration the university's long term goals and whether there is a continued need for the properties.

7.2 Property appraisals

Neither the university nor the foundation obtained independent appraisals or performed other procedures to determine the fair value for either of the properties purchased. University officials indicated these purchases were negotiated with the respective sellers and bought at a sales price of \$15,833 per acre for the farm and \$13,918 per acre for the unimproved land.

Without an independent appraisal of properties purchased, the university has less assurance the price paid was reasonable and represents the fair value of the property acquired.

Recommendations

The Board of Regents:

- 7.1 Ensure university officials develop a plan for the undeveloped properties which is in concert with future university and regional needs.



Auditee's Response

7.2 Ensure university officials obtain independent appraisals prior to the purchase of real estate to ensure fair value is paid for any property acquired.

7.1 *The University appreciates the audit team's findings and understands the broad intent, but believes this area of inquiry applies to University planning and future operations. Nonetheless, the action of development of a plan for said underdeveloped property has already been placed within the University's strategic planning process.*

7.2 *The University will put a process in place regarding obtaining appraisals prior to June 1, 2012.*

8. University-Owned Airplane

The continued ownership of the university's airplane may not be justified. In addition, the cost of alternative travel methods is not considered prior to authorization of flights in the airplane.

The university owns and maintains an airplane to fly board members to board meetings and university officials and employees to education-related meetings, legislative hearings, and other functions. The airplane is a 1978 model six-passenger aircraft purchased in 1995 at a cost of \$188,000. During the 3 years ended June 30, 2010, the airplane made 130 flights involving over 300 flight hours and carrying over 240 passengers. While the airplane was primarily used for in-state flights, it was also used for several interstate flights each year.

8.1 Cost-benefit analysis

The university has not performed a cost-benefit analysis to determine if it is beneficial for the university to continue ownership and operation of the airplane. Due to concerns the airplane was not being used effectively, university administration grounded the airplane in April 2010 and it has not been used since that time. The cost of operating the airplane ranged from \$350 to \$400 per hour and costs to operate the aircraft exceeded the costs of using alternative travel methods by over \$20,000 during the 3 years ended June 30, 2010, according to university records. In addition, the university's cost analysis did not consider the maintenance, insurance, and overhead costs related to the airplane.

To ensure the efficient and effective use of university resources, the university should perform a cost-benefit analysis of the airplane to determine if continued ownership of this aircraft is justified.

8.2 Travel method decisions

University policies do not require consideration of the cost of alternative travel methods prior to the authorization of flights. Approval for use of the airplane is determined at the departmental level and can be approved if monies are available in the budget. The university fleet services staff analyze flight costs after flights are conducted. That analysis indicated the



Northwest Missouri State University
Management Advisory Report - State Auditor's Findings

airplane was frequently used when a more cost-effective manner of travel was available. The analysis identified 13 of 130 flights during the audit period when the cost of using the airplane exceeded an alternative travel method by at least \$1,000.

Reviewing and approving travel requests, especially involving the university airplane, is necessary to ensure the travel methods selected result in the best value to the university. If the university performs a cost benefit analysis and determines it is beneficial to continue to own the airplane, university management should properly review and approve the use of the airplane. The review should consider the cost of alternative travel methods and other factors affecting the travel decision.

Recommendations

The Board of Regents ensure university officials:

- 8.1 Perform a cost-benefit analysis of the airplane to determine if continued ownership of this aircraft is justified.
- 8.2 Compare the cost of alternative travel methods and authorize flights of the university's airplane.

Auditee's Response

- 8.1 *The University will finalize the cost-benefit analysis for the airplane and make an appropriate decision on ownership within the next 24 months.*
- 8.2 *The University airplane has been grounded since April 2010. The University will continue to evaluate the efficient use of the airplane in comparison to alternative methods.*

9. Cash Receipts

Internal controls over cash receipts should be improved. Control weaknesses exist related to the recording and handling of monies received in the Bursar's office, the handling of monies initially collected by various other departments, and the handling of event tickets.

9.1 Bursar's office collections

The university Bursar's office is the main collection point for receipts on campus. Our review of controls in that office disclosed the following concerns:

- Checks received in the mail by the Bursar's office are not recorded on a mail log or restrictively endorsed immediately upon receipt. An employee in that office initially opens the mail and places any checks received in batches; however, that individual does not record the payments or restrictively endorse the checks. Instead, the various cashiers in that office retrieve the batches and record and process the monies received for any accounts that have a balance due. Any checks received on accounts with a zero balance are held for approximately a



Northwest Missouri State University
Management Advisory Report - State Auditor's Findings

week. If after that time, the account balance is still zero and the check cannot be applied, it is recorded on a Log of Returned Checks and the check is returned to the payor.

To improve controls over checks received in the mail, an initial record or mail log should be maintained for all such checks received through the mail and the checks should be restrictively endorsed immediately upon receipt. The monies should be deposited on a timely basis and any refunds necessary should be made by check.

- Receipt slips are not generated for some monies received in the Bursar's office. In some instances, cashiers have discretion in deciding whether to generate an accounting system receipt slip when recording monies received. Further, when transactions are recorded without issuing a receipt slip, a system-generated receipt number or other transaction number is not assigned by the accounting system. As a result, some receipt transactions are not assigned a sequential number and the numerical sequence of receipt transactions cannot be accounted for properly.

To improve controls in the Bursar's office, receipt slips should be issued or a receipt number assigned to all monies received to improve accountability over monies received in that office.

- Monies received by cashiers are not always deposited intact. The Bursar's office cashes personal checks and university payroll checks for students and employees from daily cash receipts. A record of these transactions is not created in the accounting system. As a result, the composition of monies received cannot be reconciled to the composition of amounts recorded on the cashier's drawer close out reports or to monies deposited.

To improve controls over monies received in the Bursar's office, receipts should be deposited intact and the composition of monies received should be reconciled to the composition of monies deposited.

9.2 Other department collections

Procedures are not adequate for monies initially collected outside the Bursar's office. Other departments do not always reconcile documentation to monies collected and turned over to the Bursar's office for deposit.

- During the audit period, the athletic department collected over \$296,000 for football camps. Documentation of monies collected by the athletic department at these camps is not reconciled to monies remitted to the Bursar's office for deposit.



Northwest Missouri State University
Management Advisory Report - State Auditor's Findings

- During the audit period, the Horace Mann school collected over \$82,000 for student meal cards. Deposit listings prepared by the Horace Mann Laboratory School for meal cards are not reconciled to monies remitted to the Bursar's Office for deposit.

To adequately safeguard receipts and reduce the risk of loss or misuse of funds, the university should require departments transmitting monies to the Bursar's office to reconcile the supporting documentation to the monies transmitted both in total and in composition.

9.3 Event tickets

Event tickets are not adequately controlled and accounted for properly. Tickets for performing arts and athletic events are sold at the performing arts center, the student services center, or the event gate. We noted the following concerns regarding ticket stock controls:

- Tickets for events are printed on blank ticket stock that has a sequential number on the back of each ticket; however, there are no inventory count procedures for the blank stock or comparison of stock usage to sales records.
- Tickets for events are pre-printed in batches and distributed to organizations to be sold. Proceeds from the sales are later collected from the organization along with the unsold ticket stock which is subsequently voided. Voided tickets are canceled in the system and shredded; however, only one employee is present during the verification and destruction of the tickets.
- All event ticket cashiers have the ability to override the established ticket price and issue free tickets.

To ensure all ticket sales are accounted for properly, the university should account for the number of tickets sold, monies collected, and inventory of ticket stock. In addition, an independent review should be performed of all free tickets issued and voided tickets should be verified and destroyed in the presence of two employees.

Recommendations

The Board of Regents:

- 9.1 Ensure university officials improve controls over monies received by the Bursar's office. In addition, the Bursar's office should discontinue the practice of cashing personal or payroll checks from daily receipts.
- 9.2 Ensure university officials improve controls over monies collected by other departments.



Auditee's Response

9.3 Ensure university officials establish procedures to account for the number of event tickets sold, monies collected, and inventory of ticket stock. In addition, voided tickets should be verified and destroyed in the presence of two employees.

9.1 *The University has changed its cash receipt process to include the following procedures: immediate recording and date-stamp for each receipt compared to daily batching of receipts, receipt numbers issued for all monies received, and zero balance checks returned daily upon receipt. With regard to cashing personal and payroll checks, the University has adequate controls in place to ensure deposits are balanced and reconciled for all transactions regardless of composition.*

9.2 *The University will work with other departments that collect monies to enhance current processes. These practices will be implemented within the next 12 months.*

9.3 *The University will implement processes to document ticket stock, sales and monies collected and complete an inventory of the stock. In addition, the University will implement a process to document voided tickets and have two people present when destroying these tickets.*

10. Capital Assets

University capital asset records are not accurate and include computer equipment items which have likely become obsolete, been disposed of, and are no longer owed by the university. In addition, periodic physical inventories of assets are not performed and departments are not always notifying the accounting department when capital asset items are disposed of or moved to a different location.

The Controller's office maintains detailed capital asset records to account for university property and equipment items. The current threshold for capitalizing capital assets is \$1,000.

10.1 Accuracy of records

Capital asset records are not accurate and include computer equipment items which have likely been disposed of and are no longer owned by the university. The capital asset records include almost 1600 property items coded as computer or data processing equipment that were purchased prior to January 1, 2000. According to university personnel, considering the age of these property items, it is likely most, if not all, of these assets had become obsolete and were disposed of but were not deleted from the capital asset records.

It appears this situation is the result of poor controls and procedures related to the verification of capital assets and the recording of property



Northwest Missouri State University
Management Advisory Report - State Auditor's Findings

dispositions, as discussed below. A thorough review should be performed to ensure the capital asset records are accurate and only include those property items the university currently owns.

10.2 Physical inventory procedures

The university has not conducted a complete physical inventory of its capital assets for at least 15 years. According to university personnel, computer equipment is inventoried in areas when service calls are made by the information systems staff; however, there is no documentation of these procedures. According to university officials, annual physical inventories of capital asset items have not been performed because they do not believe it would be cost-effective to do so.

Annual physical inventories are necessary to ensure the accuracy of capital asset records and to detect the loss, theft, or misuse of assets. The university should conduct annual physical inventories and reconcile the results of the inventories to the detailed capital asset records.

10.3 Disposition or movement of assets

The university does not have a policy requiring departments to notify the accounting department when capital asset items are disposed of or moved to a different location. As a result, the accounting department has not always been notified of asset dispositions or the movement of property items. For example, in July 2010, we noted the accounting department had not been advised of the property items sold during a surplus property auction that took place in January 2010. As a result, 36 property items sold during that auction were not properly deleted from the capital asset records in a timely manner.

The university should establish a formal policy which requires the accounting department to be notified when capital asset items are disposed of or moved to a different location.

Recommendations

The Board of Regents:

- 10.1 Ensure university officials maintain accurate capital asset records. A review of the capital asset records should be performed to ensure those records only include property items currently owned by the university.
- 10.2 Ensure university officials conduct periodic physical inventories of university property and equipment items and reconcile the inventory results to the detailed capital asset records.
- 10.3 Establish a policy or procedure which requires the accounting department be notified when capital asset items are disposed of or moved to a different location.



Auditee's Response

- 10.1 *The University has begun the process of reviewing the capital asset records in an effort to align the database records with assets on hand. The University will continue this process until all assets are reviewed over the next 3-4 years.*
- 10.2 *The University will implement periodic physical inventories of its capital assets within the next 4-5 years and reconcile the inventory results to the detailed capital asset record.*
- 10.3 *The University President will recommend and the Board of Regents will adopt a policy regarding updating the disposal or relocation of assets and communicate that policy to campus departments within the next 2-3 years.*

11. Computer Security

The university does not have an adequate formal disaster recovery plan for its computer system/data and procedures are not sufficient for reviewing employee access to the computer system.

11.1 Disaster recovery plan

An adequate disaster recovery plan has not been developed to help ensure the university can promptly restore computer operations in the event of a natural disaster. The university's current contingency plan relies exclusively on primary and alternate operating sites; however, these sites are both located on campus within approximately 1,500 feet of each other. The university does not have any established plans or agreements which would allow the computer system to be established off campus in the event of a disaster. Because of the university's degree of reliance on the computer system, the need for adequate contingency planning is evident.

An adequate disaster recovery plan should specify recovery actions required to reestablish critical computer operations and include plans for a variety of situations, including a natural disaster. If such an event were to occur, a disaster plan can reduce confusion and provide a framework for the uninterrupted continuance of operations. Once a disaster recovery plan has been updated and approved, it should be periodically tested and reviewed.

11.2 User access rights

Supervisors are responsible for assigning system access rights to employees and for notifying the information technology (IT) system administrator of additions to or changes in user rights. However, university policies do not require the supervisors to perform periodic reviews of system access rights to ensure the access rights of individual employees remain consistent with their job responsibilities. In addition, the IT system administrator does not receive independent information from the Human Resources office when employees are hired, transferred, promoted, or terminated. As a result, the IT system administrator has less assurance that notifications are received for all relevant employment actions.



Northwest Missouri State University
Management Advisory Report - State Auditor's Findings

A periodic supervisory review of all user accounts should be required to help ensure the appropriate type and level of access are assigned to current employees. In addition, information regarding employment actions should be provided by the Human Resources office to the IT section to ensure access rights are appropriately assigned or terminated for employees, as necessary.

Recommendations

The Board of Regents:

- 11.1 Ensure university officials review and update the current disaster recovery plan to provide assurance that operations can be resumed at an off campus location, if necessary. The updated plan should be periodically tested and evaluated.
- 11.2 Ensure supervisors periodically review IT system user accounts to ensure access rights of employees remain appropriate. In addition, reports of employment actions should be obtained by the IT section from the Human Resources office and used to verify that notifications have been received for all relevant employment actions.

Auditee's Response

- 11.1 *The University appreciates the audit team's opinions and the Director of Information Technology (IT) will test and evaluate the procedures and facilities it has in place for disaster recovery of computer systems/data to determine what if any changes might need to be made.*
- 11.2 *The University agrees with the recommendation and the Director of Information Technology ("IT") will implement a process to ensure supervisors review employee access to data systems. In addition, current safeguards, including triggered email notices related to Human Resources actions concerning employee status changes, will be continued.*

Northwest Missouri State University

Organization and Statistical Information

Northwest Missouri State University (NWMSU), located in Maryville, Missouri, was founded in 1905 as the Northwest Normal School. The institution's name has changed several times over the years, to Northwest Missouri State Teachers College in 1919 and to Northwest Missouri State College in 1949, to reflect the offering of degree programs other than teaching. NWMSU received its current designation in 1972 to reflect the offering of graduate level programs.

NWMSU currently operates extended campuses at six locations in addition to the main campus located in Maryville. These extended campus locations include: a partnership campus with North Central Missouri Community College in Trenton, and extended campuses at Kirksville, Joplin, St. Joseph, Chillicothe, and Kansas City. In the fall of 2010, 2009, and 2008, the university's student enrollment, including graduate students, totaled 7,076, 6,903, and 6,613, respectively.

The university employed 954 full-time, part-time and student employees, including 223 professional staff, 248 support staff, 252 faculty and 231 student employees as of June 30, 2010.

The university is governed by a nine-member Board of Regents, appointed by the Governor of Missouri and confirmed by the Senate. The board consists of eight voting members. Six of the regents must reside within the university's statutory service region. The statutory service region includes 14 counties in northwestern Missouri, not including 5 counties around the city of St. Joseph. One of the six regents must live within Nodaway County and two of the regents must reside outside the region and be from different congressional districts. A student representative, with non-voting privileges, also serves on the board. The regents serve 6-year terms and the student representative serves a 2-year term. These individuals serve without compensation; however, they receive reimbursement for any expenses incurred in performing their duties.

The Board of Regents, as of June 30, 2010, consisted of the following members:

Name	Position	Term Ends
Lydia Hurst	President	January 2013
Douglas Wyckoff	Vice President	January 2013
Joseph B. Bosse	Regent	January 2016
Rachelle Brown (1)	Regent	January 2011
Dr. Mark H. Hargens	Regent	January 2015
Gary Panethiere (2)	Regent	January 2011
Doug Sutton	Regent	January 2013
James W. (Bill) Loch	Regent	January 2012
Vacant (3)	Student Regent	



Northwest Missouri State University
 Organization and Statistical Information

- (1) Francis (Gene) Dorrel was appointed in June 2011 for a term ending in January 2017 to replace Rachelle Brown. Rachelle Brown continued to serve on the Board of Regents until her replacement was appointed.
- (2) Although Gary Panethiere's term ended in January 2011, he continues to serve on the Board of Regents. A replacement has been nominated by the Governor but has not been confirmed as of July 2011.
- (3) Joseph Barbosa was appointed as the Student Regent and was confirmed by the Missouri Senate in December 2010. His term expires December 31, 2011.

The Board of Regents appoints a President to serve as the university's Chief Executive Officer. During the audit period, Dr. Dean Hubbard served as President until July 1, 2009, when he stepped down into a transition role. Effective that date, Dr. John Jasinski was appointed to be the university's new President. In July 2009, the new President formed the Northwest Leadership Team (NLT) to provide oversight and leadership at NWMSU. The individuals who served in these top administrative positions and their compensation for the year ended June 30, 2010, were as follows:

Name	Position	Compensation
Dr. John Jasinski (1)	President	\$ 230,000
Dr. Douglas Dunham (2)	Provost	53,166
Stacy Carrick (3)	Vice President of Finance	52,804
Orrie T. Covert (4)	Vice President of University Advancement	126,270
Dr. Jackie R. Elliot (5)	Vice President of Student Affairs	111,180
Dr. Jon Todd Rickman	Vice President of Information Systems	125,402
Mary E. Throener	Vice President of Human Resources and Organizational Effectiveness	92,700
Dr. Robert Boerigter (6)	Director of Athletics	106,080
Dr. Paul McGraw (7)	Director of Environmental Services	n/a

- (1) In addition to his base salary of \$230,000, Dr. Jasinski's contract provides for monthly payments of \$900 for a motor vehicle. In addition to the monetary compensation received, the President is provided with a university-owned residence. Costs of the residence are paid by the university including furnishings, utilities, maintenance, and property insurance. The President is also provided a country club membership paid by the university.
- (2) Douglas Dunham was appointed as Provost by the university in March 2010. The annual compensation for the position as stated in the employment contract is \$159,500.
- (3) Stacy Carrick was appointed as Vice President of Finance by the university in February 2010. The annual compensation for the position as stated in the employment contract is \$133,400.
- (4) In addition to the base salary of \$126,270, Orrie Covert received a stipend of \$18,000 for additional duties performed during a search for a new Vice President of Marketing and an annual car allowance of \$7,000 provided by the Northwest Foundation. A country club membership is also provided by the foundation. Orrie Covert resigned in June 2011 and a replacement has not been appointed.
- (5) Dr. Jackie Elliott resigned from the Vice President of Student Affairs in June 2011 and a replacement has not been appointed.
- (6) Dr. Robert Boerigter resigned from the Director of Athletics position in September 2010. Wren Baker was appointed as Director of Athletics in February 2011. The annual compensation for the position as stated in the employment contract is \$105,000. Mark Clements, Assistant Director of Athletics - Internal Affairs, served as Interim Athletic Director until February 2011 and received a monthly stipend of \$3,300 in addition to his regular salary for performing the interim duties.
- (7) Dr. Paul McGraw (an employee of the university's facilities management contractor) served on the NLT until February 2011.



Northwest Missouri State University
Organization and Statistical Information

American Recovery and
Reinvestment Act 2009
(Federal Stimulus)

In addition, Nate Blackford was appointed Director of Strategic Research in September 2010 at an annual compensation amount of \$94,343. The Director of Strategic Research serves on the NLT.

According to university personnel, the university was awarded the following American Recovery and Reinvestment Act of 2009 funding:

State of Missouri appropriations totaling \$4,049,576 were awarded to the university from Federal Budget Stabilization - Education Funds. The university received and spent the monies during the year ended June 30, 2010, to retain 76 current employees and create 8 new positions.

A \$55,979 Recovery Act: Federal Work-Study grant was awarded to the university by the U.S. Department of Education to provide need-based financial aid to students through compensation for hours worked at on-campus or off-campus jobs. The university received and spent the monies during the year ended June 30, 2010, to create 6 new work-study positions.

Financial information and an organization chart follow.

Appendix A

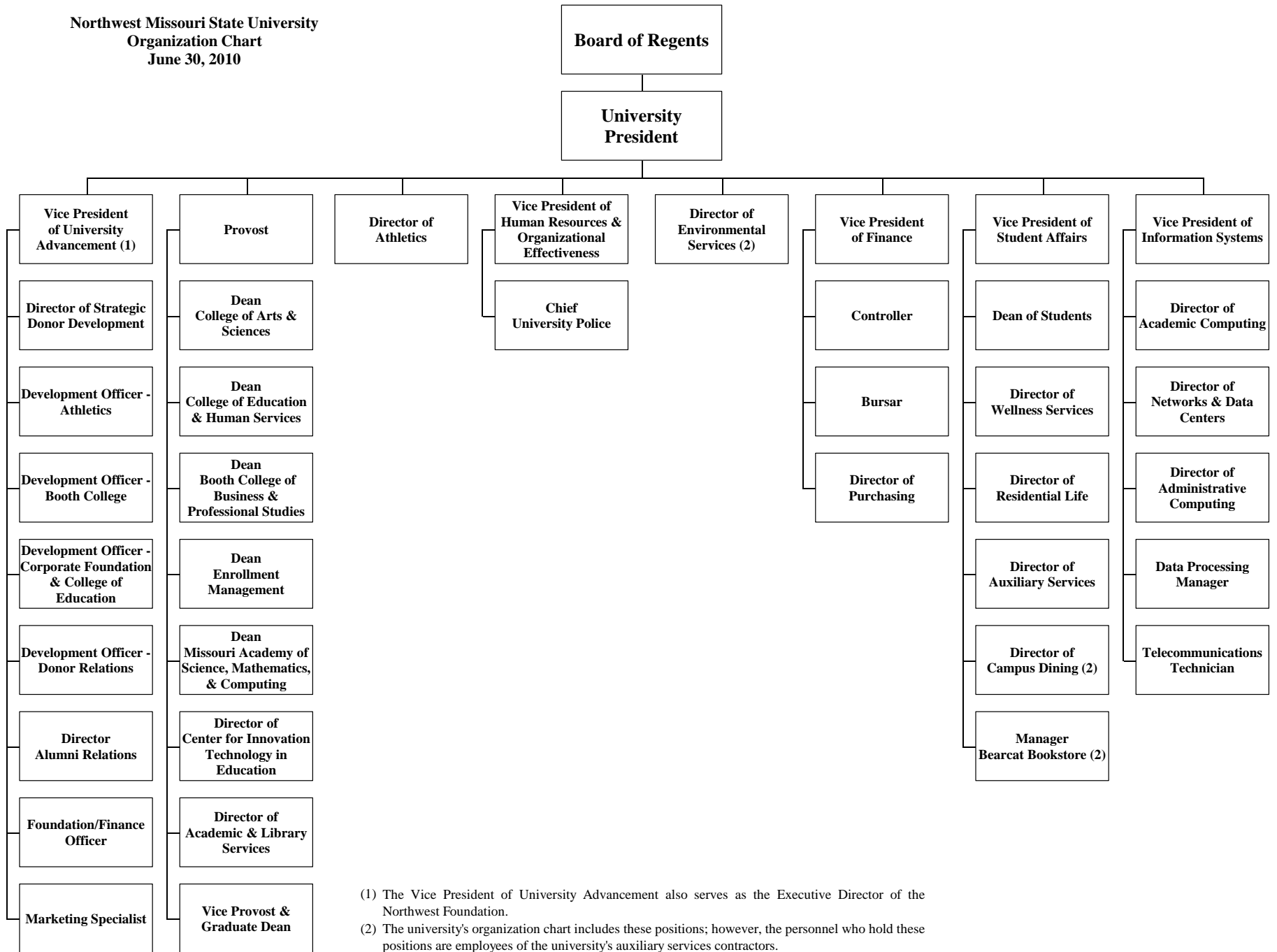
Northwest Missouri State University

Revenues, Expenses, and Changes in Net Assets

	Year Ended June 30,		
	2010	2009	2008
Operating Revenues			
Student tuition and fees (net of scholarship allowances)	\$ 32,049,918	31,608,985	30,087,965
Federal grants and contracts	3,270,106	4,433,395	3,384,517
State grants and contracts	3,172,771	6,174,479	5,522,753
Nongovernmental operating grants and contracts	858,599	1,221,373	1,194,963
Sales and services of educational programs	1,220,966	1,377,889	1,337,886
Auxiliary enterprises (net of scholarship allowances)	17,507,876	16,488,360	15,083,187
Other operating revenue	3,778,278	4,069,376	3,293,370
Total Operating Revenues	<u>61,858,514</u>	<u>65,373,857</u>	<u>59,904,641</u>
Operating Expenses			
Salaries -			
Faculty	16,282,472	16,592,901	15,960,275
Administrative and professional, technical	13,774,940	13,722,062	12,002,813
Support staff, students	9,813,594	10,918,471	10,666,985
Benefits	12,896,092	13,205,080	11,986,411
Scholarships and fellowships	1,359,867	1,139,068	949,534
Utilities	3,328,780	2,964,415	3,323,600
Supplies and other services	25,623,829	31,029,467	30,722,202
Depreciation	11,996,439	10,695,196	9,847,072
Other postemployment benefit expense	297,367	122,948	478,689
Total Operating Expenses	<u>95,373,380</u>	<u>100,389,608</u>	<u>95,937,581</u>
Net Operating Deficit	<u>(33,514,866)</u>	<u>(35,015,751)</u>	<u>(36,032,940)</u>
Nonoperating Revenues (Expenses)			
State appropriations	32,617,455	32,105,956	30,889,852
Investment income	306,636	462,954	886,812
Federal Pell grants	8,025,618	4,984,947	4,511,665
Interest on capital asset-related debt	(4,111,754)	(3,990,729)	(3,946,885)
Gain (loss) on disposal of capital assets	(3,355)	(8,684)	59,655
Net Nonoperating Revenues	<u>36,834,600</u>	<u>33,554,444</u>	<u>32,401,099</u>
Gain (Loss) Before Other Revenues, Expenses, Gains, or Losses	3,319,734	(1,461,307)	(3,631,841)
Capital appropriations	3,338,341	12,848,120	7,829,950
Contributions for capital projects	0	0	2,121,524
Capital grant	208,400	0	80,000
Capital gift	0	337,797	0
Increase in Net Assets	6,866,475	11,724,610	6,399,633
Net Assets, Beginning of Year	<u>95,275,781</u>	<u>83,551,171</u>	<u>77,151,538</u>
Net Assets, End of Year	<u>\$ 102,142,256</u>	<u>95,275,781</u>	<u>83,551,171</u>

Source: Northwest Missouri State University's audited financial statements. The financial statements of the foundation are not included.

**Northwest Missouri State University
Organization Chart
June 30, 2010**



- (1) The Vice President of University Advancement also serves as the Executive Director of the Northwest Foundation.
- (2) The university's organization chart includes these positions; however, the personnel who hold these positions are employees of the university's auxiliary services contractors.