



Thomas A. Schweich
Missouri State Auditor

HIGHER EDUCATION

Southeast Missouri State University

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<http://auditor.mo.gov>



Thomas A. Schweich
Missouri State Auditor

CITIZENS SUMMARY

Findings in the audit of Southeast Missouri State University

Expenditures	The university does not always solicit competitive proposals for professional services and did not retain written agreements for past legal services. Two accounting system users were able to enter and approve their own transactions, increasing the risk of misuse, and the university spent over \$60,000 in a 3-year period for employee recognition purposes which did not appear reasonable or necessary.
Comprehensive Food Policy	The university lacks comprehensive guidelines detailing when it is appropriate to provide food.
Foundation	University personnel have not adequately supported the amounts paid for property lease payments made to the Southeast Missouri University Foundation. The university also subsidizes a significant portion of the foundation's operating expenses, in an apparent violation of the Missouri Constitution.
Administrative Transfers	The university does not maintain documentation supporting transfers to allocate overhead and shared costs, such as costs for using the Show-Me Center and costs for vending administration and legislative relations attributed to the Housing System Fund.
Employment Contracts	The University President has been allowed to accumulate vacation days, for which he can request payment, without restriction, and, as of June 30, 2010, he had accumulated 1,378 hours worth \$128,575. Also, the \$286,300 severance payment to the former men's basketball coach appears excessive.
Credit Card Convenience Fees	The university paid almost \$700,000 in credit card convenience fees over 3 years instead of requiring credit card users to pay these fees.
Closed Meeting Discussions	The university did not document in open meeting minutes the reasons for closing meetings and could not demonstrate how some topics discussed in closed meetings complied with state law.
Use of University Facilities	The university lacks adequate support for the rates charged for use of university facilities, such as the Show-Me Center and the University Center, and the rates charged may be insufficient to cover the costs.
Show-Me Center Receipts	Weak internal controls over Show-Me Center concession receipts made it difficult to determine which employee was responsible when receipts of \$1,908 could not be located.
Taxable Mileage	The taxable mileage reported on employees' W-2 forms is not always adequately supported. None of eight employees we reviewed who were allowed to use dealer- or foundation-provided vehicles for personal usage in 2009 maintained a detailed vehicle usage log, as required by the IRS.

Information Security

The university has not developed an adequate disaster recovery plan to restore computer operations and does not have documented procedures for periodic tests of offsite backup data.

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

American Recovery and Reinvestment Act 2009 (Federal Stimulus)

A \$155,337 Recovery Act: Formula Grants for Other Than Urbanized Areas Shuttle Services grant was received and expended to purchase shuttle buses.

A \$1,172,710 Recovery Act: State Fiscal Stabilization Fund Government Services grant was awarded, of which, \$1,137,044 was received and expended through June 30, 2010, for expanding student enrollment in medical or nursing majors and retaining one Nursing Department faculty position, which was retained after the grant ended.

A \$7,296,681 Recovery Act: State Fiscal Stabilization Fund Education grant was awarded, of which \$5,199,967 was received and expended through June 30, 2010, for operational expenses and retaining 114.86 Facilities Management and Information Technology positions, which were retained after the grant ended.

A \$379,363 Recovery Act: Environmental Asthma Trigger Training in Schools grant was awarded, of which \$4,217 was received and expended through June 30, 2010, for training, providing materials, and funding 1.5 new positions, which were eliminated after the grant ended.

A \$61,892 Recovery Act: Federal Work Study grant was received and expended to financially assist eligible postsecondary education students.

A \$1,330,000 Recovery Act: Repair and Renovation of Faculty Laboratory Facilities grant was awarded to renovate a lab, but through June 30, 2010, no funds were received or expended.

A \$36,019 Recovery Act: Cobra Subsidy Credit was received and expended to subsidize 65 percent of Cobra benefits for terminated employees.

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

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

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THOMAS A. SCHWEICH

Missouri State Auditor

Honorable Jeremiah W. (Jay) Nixon, Governor
and
Board of Regents of Southeast Missouri State University
and
Dr. Kenneth Dobbins, President
Southeast Missouri State University
Cape Girardeau, Missouri

We have audited certain operations of Southeast Missouri State University, in fulfillment of our duties under Chapter 29, RSMo. The university engaged RubinBrown LLP, Certified Public Accountants (CPAs), to audit the university's financial statements for the years ended June 30, 2010 and 2009. To minimize duplication of effort, we reviewed the report and substantiating working papers of the CPA firm for the year ended June 30, 2009, since the year ended June 30, 2010, audit had not been completed at the time we started our audit, 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 Southeast Missouri University 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 control, (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 Southeast Missouri State University.



Thomas A. Schweich
State Auditor

The following auditors participated in the preparation of this report:

Deputy State Auditor:	Harry J. Otto, CPA
Director of Audits:	John Luetkemeyer, CPA
Audit Manager:	Susan J. Beeler, CPA, CIA
In-Charge Auditor:	Julie Vollmer, CPA, CIA
Audit Staff:	Emily Bias
	Jay Dowell, MBA
	Lacy Miller, M.Acct.

Southeast Missouri State University

Management Advisory Report

State Auditor's Findings

1. Expenditures

The university needs to improve expenditure policies and procedures related to professional services, transaction approvals, and employee recognition awards.

1.1 Professional services

The university did not always solicit competitive proposals for professional services or enter into written agreements for legal services. Our review of professional service expenditures noted the following:

- The university does not solicit proposals for legal services, which are obtained from several different firms, based on the type of specialized services needed. In addition, the university has not retained written agreements for past legal services. Although the university has engagement letters with each firm, only the most recent letter from each firm is retained by the university. As a result, legal fees totaling \$92,550 were not supported by an engagement letter. The university paid approximately \$656,400 for legal services during the 3 years ended June 30, 2010.
- The university has used the same federal legislative consultant (who is also a former University President) since 2001 without periodically soliciting proposals for this service. Although the university originally selected this consultant through a formal selection process, the university has continued to renew this 1-year contract without periodically requesting or reviewing proposals from other possible vendors. The fee is renegotiated annually when the contract is renewed. The university paid approximately \$325,000 to this consultant during the 3 years ended June 30, 2010.

University Policy OP 05-04 states the university is to follow Chapter 34, RSMo, for bidding requirements and does not specifically address professional services. While professional services, such as attorneys and consultants, are not subject to standard bidding procedures, the university should solicit proposals for professional services to the extent practicable. Soliciting proposals and subjecting such services to a competitive selection process does not preclude the university from selecting the vendor or individual best suited to provide the service required. Such practices help provide a range of possible choices and allow the university to make a better-informed decision to ensure necessary services are obtained from the best-qualified vendor at the lowest and best cost. In addition, written agreements provide the framework necessary to detail the services to be provided and the compensation to be paid.

1.2 Transaction approvals

Two accounting system users had the authority to enter and approve their own expenditure transactions as of June 30, 2010.



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Each user account in the accounting system is assigned certain rights and privileges which include creating and approving transactions. If a user is allowed rights to both create and approve a transaction, and these rights satisfy the rules established for the transaction, the user would be able to create and approve the same transaction without review or additional approval from an independent party.

University personnel stated these users needed these access levels due to the limited number of employees in the accounts payable section. However, by allowing users to potentially approve their own transactions without an independent approval, there is an increased risk that inappropriate or unauthorized transactions may be processed.

1.3 Employee recognition

Employee recognition expenditures, totaling at least \$61,300 during the 3 years ended June 30, 2010, do not appear to be reasonable or necessary uses of university funds.

Under the Employee Recognition Program, the university purchases service award gifts for current employees and those retiring with 15 years or more of service. After current university employees have attained 10, 20, 25, 30, 35, 40, and 45 years of service, they receive a 10 karat gold tie pin or pendant with sapphires, rubies, and/or diamonds (depending on the years of service). The cost for each pin/pendant ranges from \$97 to \$225. In addition, retiring employees are given their choice of a wooden rocking chair, stand-alone chair, or gold medallion, with costs ranging from \$329 to \$580. During the 3 years ended June 30, 2010, costs for service awards and retirement gifts totaled approximately \$56,600.

In addition, the university holds an annual employee recognition banquet to present the service awards. Costs for food and program printing associated with the banquets during the 3 years ended June 30, 2010, totaled approximately \$4,700.

These expenditures do not appear necessary or essential to the operation of the university. In addition, University Policy OP 05-06 states university funds should not be used to celebrate events such as holidays, birthdays, going away parties, etc. While there may be some benefit to employee morale through service awards, the university should evaluate whether the benefits justify the cost.

Recommendations

Southeast Missouri State University:

- 1.1 Ensure competitive proposals are solicited for professional services to the extent practicable and related agreements are retained.



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Auditee's Response

1.2 Ensure accounting system users do not have the ability to approve the transactions they create in the system.

1.3 Reevaluate expenditures for recognition awards.

1.1 *The University will continue to use a competitive bidding process when required by RSMo. Regarding specific areas included in the report:*

A. *As stated in the audit report, Chapter 34 RSMo does not require requests for proposals for legal services. Legal counsels are retained based on attorney/firm expertise and performance. Our current legal counsels' rates are at or below reasonable and customary levels. We currently monitor any increases in counsels' rates and will obtain annual letters of engagement in the future as recommended.*

B. *We issued a request for proposal for the federal legislative consultant as a result of State Auditor Report No. 2000-24, April 19, 2000. The Board annually reviews the legislative consultant's accomplishments in relation to the annual fees. In a variety of ways, the consultant has been part of obtaining over \$56 million in federally-directed projects and grants for the University and University joint projects. As the number of federally-directed projects/grants has been reduced, the legislative consultant's fees have been reduced. Consequently, the consultant's annual fee has been reduced over the last 10 years from \$165,000 to \$95,000 (43% reduction). We believe the annual fee is currently appropriate and will continue to annually review the consultant's performance and annual fee.*

1.2 *The University agrees that a formalized review process is needed, and as such a report has been developed detailing invoices entered and approved by the same individual. This report is reviewed by the Controller on a weekly basis. To clarify the finding, the Accounts Payable Department is comprised of three clerks who enter invoices and the Accounts Payable Manager who reviews and approves transactions for payment. During the Accounts Payable Manager's absence, one designated clerk reviews and approves transactions. This department operates with a very small staff and not all absences are scheduled, so it is not possible to have this clerk refrain from entering invoices during the Accounts Payable Manager's absence. The Controller has been spot checking such transactions and, based on the state audit team's comments, no irregularities were found during the audit.*



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1.3 *Recognizing employees for their considerable service to the University is an employee benefit which is an important tradition, a prudent expense, and a reasonable way to show our appreciation for service to our University and its students. As such, the University believes these expenditures are minimal and are appropriate benefit expenses.*

2. Comprehensive Food Policy

While it is sometimes necessary to incur food expenditures, the university does not have comprehensive guidelines detailing when providing food is reasonable and appropriate. The only policies relating to food are for travel and unacceptable use of university funds. The travel policy defines a business meal as "a meal in which the primary purpose of the meal is to conduct University business with one or more other persons with whom there is a business interest or relationship" and the purchasing policy defines inappropriate uses of university funds as expenditures "to celebrate events such as holidays, birthdays, going away parties, etc." However, these policies are not detailed and do not discuss guidelines and procedures for appropriate use of university catering mentioned above, or whether in-town meals should be paid for by the university. The university paid its food service provider approximately \$422,000, \$434,000, and \$462,000 for catering services for various camps, workshops, orientation, recruitment, and student events, during fiscal years 2010, 2009, and 2008, respectively.

Considering the extent of university-provided food expenditures, it appears the university should develop comprehensive policies regarding food purchases in an effort to control and reduce these expenditures.

Recommendation

Southeast Missouri State University consider developing a comprehensive policy regarding university-provided food purchases.

Auditee's Response

The University will periodically review food expenditures and Missouri's Office of Administration policy for food purchases as a guide to ascertain if procedural changes regarding University-provided food purchases are needed.

University policies are established to provide guidance for responsible administrators to write operating procedures to carry out those policies. Operating procedures outline how activities should be accomplished with as much specificity as possible. However, every possible situation cannot be included in establishing procedures. Consequently, supervisors are empowered to make prudent decisions. After reviewing Missouri's Office of Administration's policy for food purchases sent to us by the state audit team, we believe our procedures regarding the purchase of food are adequate.



3. Foundation

Principal and interest costs paid on property leased from the university's foundation are not adequately supported. In addition, the university subsidizes some employee salary and benefit costs of the foundation. The Southeast Missouri University Foundation was established in 1983 as a tax-exempt, charitable not-for-profit corporation. Its mission is to assist in the physical and functional development and advancement of Southeast Missouri State University and the performance of the university's educational and charitable functions. The business and affairs of the foundation are managed by a board of directors which includes university officials and members-at-large.

3.1 Property leases

University personnel have not adequately supported the amounts paid for property lease payments made to the foundation. In some instances, the foundation will purchase property at the request of the university because the university cannot execute any real estate transactions (buy or sell) without approval from the state legislature. The foundation will then lease the purchased property to the university to recoup its costs (purchase price plus interest) on an initial lease. After the costs have been recouped, the lease continues with a nominal lease payment (usually \$1 per year). This practice was started in the 1980s and as of June 30, 2010, the university had executed a total of 59 foundation property leases. Fifteen of these properties (25 percent) were in the initial lease phase. The following concerns were noted during the review of foundation property leases:

Lease interest

There is no documentation to support the reasonableness of the interest rates charged on the leases. The university usually pays interest of approximately 7 percent on the initial leases for foundation property. Although university officials indicated the interest rate is reasonable, university officials could provide no documentation to show how this rate was determined. The university paid interest of \$295,860 on foundation property leases during the year ended June 30, 2010.

Studies or appraisals

For the seven foundation properties with initial leases starting during the 3 years ended June 30, 2010, neither the foundation nor the university obtained appraisals to determine the fair value of the properties purchased. While university personnel indicated they believe the overall amount paid to the foundation for all leased property is reasonable, the university does not have any documentation to support this conclusion. As of June 30, 2010, the foundation had paid approximately \$13.1 million for the 59 properties currently being leased to the university.

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



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3.2 Subsidies

The university subsidizes a significant portion of the operating costs of the foundation. This practice may violate provisions of the Missouri Constitution. The university could not quantify the amount of salary and benefit costs actually attributable to foundation activities. However, salary and benefit costs of university employees who spend some of their time on foundation activities totaled \$1.2 million for the 3 years ended June 30, 2010.

The university initially pays all salaries and benefits of the applicable employees, which are then partially reimbursed by the foundation for some employees. The following concerns were noted during a review of 9 of the 33 employees on the foundation's organization chart and website:

- The university does not receive reimbursement from the foundation for the Vice President for University Advancement/Executive Director of the University Foundation, the Coordinator of Annual Fund, or the Coordinator of Stewardship. However, these employees spent at least some of their time working on foundation activities. University officials indicated they could not readily quantify the amount of time spent on foundation or university activities.
- The university receives reimbursement from the foundation for a percentage (ranging from 16 to 65) of salaries of the Director of Planned Giving, the Director of Alumni Relations, and two Directors of Development. However, these percentages have been used since at least 2001 and have not been reevaluated since that time. In addition, university officials indicated they do not have documentation to support these percentages.
- The university receives reimbursement from the foundation of \$6,000 each year for the Vice President of Finance and Administration. This reimbursement amount has been used since 2004 and has not been reevaluated since that time. University officials indicated they do not have documentation to support this amount.
- One employee in the Controller's office performs extensive work for the foundation and university financial activities, but is paid entirely by the university. Several other employees in the Controller's office perform minimal work for the foundation and are paid entirely by the university.

In each instance, university officials indicated employee timesheets do not indicate the hours worked on foundation versus university activities nor has the university performed a time study to serve as a basis for allocating these costs. Therefore, it is unclear exactly how much of each employee's time was related to foundation activities and should have been reimbursed by the foundation.



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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.

Recommendations

Southeast Missouri State University:

- 3.1 Ensure interest rates charged on foundation leases are adequately supported, and appraisals are obtained prior to the purchase of property on behalf of the university.
- 3.2 Discontinue the practice of subsidizing salaries and benefits for university employees who perform activities for the foundation. The university employees should track actual time worked for each activity or perform time studies to determine an allocation basis and request reimbursement for the foundation-related costs.

Auditee's Response

- 3.1 *The University will continue reviewing interest rates for Foundation leases. However, of the 59 properties currently being leased from the Foundation, 19 have buildings on the property and the remainder are acreage. These 19 properties have 426,309 square feet of structure and the average lease cost per square foot is \$1.47. The University believes that a rental rate of \$1.47 per square foot is considerably below market for building rental space. This does not even take into consideration that some of these 19 properties include considerable acreage in addition to building square footage, such as the Agriculture Department farm, which has 251.70 acres and 22,248 square feet of building space. In instances where the Foundation utilizes a bank loan to purchase property, the financial institution conducts either an appraisal or property inspection, based on their requirements.*
- 3.2 *Based on our discussions with the state auditor team, the University Advancement Division will define fundraising activities, perform a time study to determine fundraising allocations, and revise the reimbursement request from the Foundation as needed. However, we also believe that the University has not subsidized the Southeast Missouri University Foundation. In fact, the University received more funds from the Foundation than personnel costs not already reimbursed. As background, the Southeast Missouri University Foundation was established as a 501(c)3 organization to assist in the physical and functional development and advancement of Southeast Missouri State University and the performance of its educational and charitable functions. Many of the University Advancement staff perform duties which are not raising additional funds for operations and scholarships to supplement reduced state*



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appropriation and tuition and fees. During the period audited, the University was reimbursed over \$800,000 for personnel, and the Foundation received gifts for the University amounting to over \$14.2 million for the past three years (FY08-\$2.6 million, FY09-\$6.3 million, FY10-\$5.3 million). The \$800,000 of reimbursements by the Foundation and the gifts to the Foundation and used by the University far exceed the personnel costs identified during the period audited.

4. Administrative Transfers

Transfers to allocate administrative overhead and shared costs are not adequately supported. In addition, the university does not have documentation to support reductions of administrative overhead transfers.

The university has not recently evaluated its methodologies for calculating the amount of transfers for administrative overhead related to various auxiliary operations.

Show-Me Center

The university has not documented its basis for transferring amounts for usage (i.e. athletic events, staff meetings, etc.) of the Show-Me Center. During each of the 3 years ended June 30, 2010, \$476,405 was transferred from the General Operating Fund to the Show-Me Center Fund. Transfers are made to allocate salary and benefit costs of the Show-Me Center employees to the appropriate functions. Although the university conducted an analysis of salary and benefits when the Show-Me Center opened in 1987, the university has only adjusted the transfer amount for annual salary adjustments, if applicable, and a periodic reevaluation based on current staffing levels, duties, and usage has not been performed. Therefore, it is unclear if these transfer amounts remain appropriate.

Residence life

The university has not documented its rationale for transferring \$115,000 annually from the Housing System Fund to other university funds for allocation of vending administration, recycling overhead, and legislative relations costs. Since at least 2005, the university has made annual transfers of \$105,000 and \$7,500 for vending administration and recycling overhead costs to the General Operating Fund, and \$2,500 for legislative relations costs to the Legislative Relations Fund, but does not have any documentation to support the basis for these amounts. In fiscal year 2009, the university also made a \$16,646 transfer to the General Operating Fund for the unspent portion of a budgeted housing position which became vacant in the middle of the year. However, it is unclear why salary of a vacant position should be transferred when it is essentially cost savings and does not represent actual costs paid. Unsupported transfers totaled \$361,646 for fiscal years 2010, 2009, and 2008.

In addition, each year the university performs a calculation to determine the amount of administrative costs to be allocated to the Housing System Fund.



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These costs are for services provided to the housing operations related to the physical plant, routine maintenance, and financial activities, and totaled approximately \$3.9 million for the 3 years ended June 30, 2010. This calculation is based on the percentage of actual maintenance hours used for housing activities and a 1.6 percent fee charged by the university for billing and collecting housing fees (this fee is based on the amount the university pays credit card companies which is a similar service). However, each year the actual transfers for these administrative costs are reduced to a negotiated amount. University officials indicated the transfer amount is negotiated because some employees paid from the Housing System Fund also provide services to the overall university. The amount of this service has not been quantified by the university, so it is unclear if these reductions are appropriate. Negotiated reductions in transfers totaled \$368,462, \$146,341, and \$357,086, in fiscal years 2010, 2009, and 2008, respectively.

Transfers between funds should be supported by adequate documentation to ensure costs are allocated to the appropriate funds. To ensure costs for the housing operations are properly charged to each fund for these shared expenses, the university should base the transfer amounts on documented measures of actual activities which are reasonable and fully cover the costs involved.

Recommendation

Southeast Missouri State University ensure transfers from auxiliary funds to the General Operating Fund are based on actual activity and are adequately documented. In addition, a periodic comparison of any estimated activity to actual activity should be performed.

Auditee's Response

The University will continue reviewing overhead rates on an annual basis. We believe, however, that the current overhead cost transfers from auxiliaries are reasonable considering the services actually accomplished by the University but agree that we should periodically document the overhead rates with actual activities. In the case of the Show Me Center, for example, University functions are over 50% of the activities. In the case of Residence Life, actual facilities maintenance hours are reimbursed plus an amount up to the Mastercard/Visa discount rate as an approximation of the cost to provide billing services.

5. Employment Contracts

The University President can accumulate vacation days without restriction which could result in a significant cash payment upon his retirement or termination of university employment. In addition, the severance amount paid to the former men's basketball coach appears excessive.

5.1 President's accumulated leave

The University President has been allowed to accumulate vacation days without restriction, as provided by his contract, with accumulations to be paid out at his option as vacation buyback or upon retirement or termination. This is in contrast with a university policy which limits university staff to be



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paid a maximum of 30 days (or 240 hours) for unused vacation time upon leaving university employment. As of June 30, 2010, the President's accumulated vacation time had a value of approximately \$128,575 for 1,378 hours of unused vacation leave accrued during his employment with the university. If the President was subject to the same accrual limit as other university employees, his vacation leave payout would be limited to approximately \$22,400.

The university's practice of allowing its president to accrue vacation leave without restriction will result in a significant cash payment when retirement or termination of university employment occurs.

5.2 Severance

The severance payment of \$286,300 to the former men's basketball coach appears excessive. The university terminated the contract for various reasons in December 2008, more than 2 years before the contract expired in April 2011, and the coach was paid the remainder of his salary under the contract terms. Although the university's contract with the coach specified various reasons the university could terminate the contract, the contract was not specific enough in several areas.

An administrative contract which allows the university to make good faith determinations for terminating employees with cause is in the best interest of the university and may help avoid unnecessary severance costs and related misunderstandings.

It should be noted that after this severance was paid, the university changed its standard athletic coaching contract to allow the university to terminate a coach with cause if, after reasonable investigation and deliberation, the university makes a good faith determination a coach has engaged in certain behaviors.

Recommendations

Southeast Missouri State University:

- 5.1 Limit the amount of vacation leave the university president can accumulate to avoid significant costs when that individual retires or terminates employment.
- 5.2 Refrain from paying excessive severance payments.

Auditee's Response

- 5.1 *The Board of Regents is responsible for hiring and establishing the compensation package for the President. The Board of Regents believes the total compensation package for the President is reasonable considering the accomplishments of the current president, his longevity at Southeast, and comparable salaries of Missouri four-year public university presidents. The current President is the most senior President/Chancellor at Missouri's 13*



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four-year public universities, and has one of the lowest compensation packages. The comparisons provided to the state audit team showed the President's overall compensation was below the average presidents' compensation and in the lowest quartile. As an incentive for the President to remain at Southeast, the Board used the vacation accrual as a way to provide a low cost incentive rather than offering what some other universities provide their presidents, e.g., paid six months sabbatical at the end of a contract or a fixed amount for completing each year as President. The vacation accrual noted in the audit represented unused vacation accumulated over 13 years.

Finally, the finding implies that there will be an unplanned significant cash payment upon the President's retirement. Governmental Accounting Standards Board guidelines requires that every year annual leave balances for all employees are accrued and the liability is shown in the University's financial reports. Therefore, the University has reserved enough cash for accrued vacation balances for all employees so that if retirements or separations occur, significant cash is available to make payments at those times.

- 5.2 *The coach was terminated without cause and was paid the remainder of his salary under the contract terms. By terminating the coach without cause in December 2008, the university saved 18 months of benefits payments (approximately \$25,000), future contract annuity payments (approximately \$30,000) and social security on the final payment (approximately \$10,000). Also as noted by the auditors, the university changed standard contract language for coaches to allow the university additional flexibility in terminating a coach with cause in the future. This contract language was changed in 2009.*

6. Credit Card Convenience Fees

The university allows student accounts to be paid with personal credit cards; however, credit card users are not charged a convenience fee to offset the related costs to the university. Currently, credit card fees, which range from approximately 1 to 3 percent of the transaction amount, as well as individual transaction fees of 8 cents to 45 cents per transaction, are absorbed by the university. The university paid approximately \$694,000 in related credit card fees during the 3 years ended June 30, 2010.

According to university personnel, charging credit card convenience fees to students based on a percentage of the total amount charged was considered in 2007. However, at that time, it was discovered this type of convenience fee was not allowed by at least one credit card company, so the university has continued to absorb the related costs. University personnel indicated a



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majority of the students use this specific credit card company, which they believe results in the university receiving more timely payments. No documentation of the 2007 review was retained and no additional analysis has been performed. In addition, 8 of the 12 other public 4-year institutions (including the four campuses of the University of Missouri system) charge convenience fees to credit card users instead of absorbing these costs. These eight institutions only accept certain types of credit cards and seven institutions only allow on-line credit card payments.

Considering the costs of credit card fees paid by the university, the university should reconsider if absorbing these costs outweighs the benefits of not charging credit card convenience fees.

Recommendation

Southeast Missouri State University should reconsider its decision to absorb credit card convenience fees. In addition, the Board of Regents should ensure detailed documentation is retained of the costs and benefits of charging the related fees.

Auditee's Response

We have reviewed the University's procedures regarding credit card service fees in the past and will periodically revisit this issue each time we bid our banking services. Currently, the University receives over \$16 million of payments each year via credit cards (Mastercard/Visa/Discover). We consider credit card fees as a normal cost of operations to provide students/parents/customers another method of payment. Additionally, we have determined that charging a convenience fee would not be appropriate since contractually a convenience fee would require a fixed fee vs. a percentage of the charge. Consequently, a small amount, such as a \$10 bookstore purchase, would be required to pay the same convenience charge as a \$4,000 tuition payment.

7. Closed Meeting Discussions

The university did not document in the open meeting minutes the reasons for closing meetings. The Board of Regents held numerous closed meetings during 2008, 2009, and 2010. The agendas typically stated the meeting would be closed to discuss legal actions, real estate transactions, personnel issues, and records which are protected from disclosure; however, while in closed session, the Board would sometimes discuss two or three of these topics and not all four as the agendas indicate.

In addition, the university was unable to demonstrate how some topics discussed in closed meeting sessions complied with state law. The following are a few examples of closed meeting discussions which do not appear to be allowed by state law:

- The Board received quarterly reports from its federal lobbyist in closed meetings. University personnel indicated while this discussion may not relate directly to a section of the Sunshine Law, they believe the topics



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discussed could involve disclosing information or individual names which would could adversely affect initiatives or negotiations being pursued by the university or other external agencies.

- The Board discussed the scope of work for a consultant to review the athletic program in closed meetings. University personnel indicated this discussion was allowed to be in closed session because the scope of work was a contractual issue between the Board and its consultant that had legal implications which required discussion with the Board's attorney. However, the closed meeting minutes did not clearly indicate how this discussion had legal implications.
- The Board discussed naming of the River Campus plaza in a closed meeting. University personnel indicated while this discussion may not relate directly to a section of the Sunshine Law, they believe the topic discussed was to recognize individuals which would be made public at an event with the individual present.
- The Board discussed the concept of sharing costs for the dining hall construction with the food service provider in a closed meeting. University personnel indicated this discussion was allowed to be in closed session because this was a contractual issue between the Board and its vendor that had legal implications which required discussion with the Board's attorney. However, the closed meeting minutes did not clearly indicate how this discussion had legal implications.

According to the Sunshine Law, meetings, records, votes, actions, and deliberations of public governmental bodies are to be open to the public unless otherwise provided by law and exceptions should be strictly construed to promote the state's policy of open records. The Sunshine Law, Chapter 610, RSMo, states the specific reasons for the closed meeting shall be voted on at an open meeting and provides public governmental bodies shall not discuss any other business during the closed meeting which differs from the specific reason used to justify such meeting, record, or vote. In addition, the Board of Regents should restrict the discussions in closed meetings to specific topics listed in Chapter 610, RSMo.

Recommendation

Southeast Missouri State University ensure open meeting minutes and related agendas state the specific reasons for going into closed meetings. In addition, only allowable topics should be discussed in closed meetings.

Auditee's Response

The University agrees that motions to go into closed session should only reflect topics actually discussed. Since June 2010, motions to go into closed session have been changed to reflect only topics actually covered in the sessions and protected by the Sunshine Law. However, we believe the topics



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identified in the audit report should have been discussed in closed sessions due to personnel issues, contracts, and negotiations of contracts.

8. Use of University Facilities

Show-Me Center

The rates charged for use of university facilities are not adequately supported and may be insufficient to cover the related costs. The university rents space in the Show-Me Center and University Center to the public for events such as meetings and conventions.

Although the Show-Me Center revised rental rates in July 2009 and October 2008, the university did not retain documentation to support the rates established. The university rents space (such as the main arena, meeting rooms, upper concourse, and exterior space) at the Show-Me Center to private or non-profit entities for an established rental fee. Rental charges for the main arena are currently \$3,000 or 10 to 12 percent of gross ticket sales, depending on the type of event. Most rental charges for the other spaces range from \$20 to \$250. University officials indicated they informally compare Show-Me Center rates against similar entities renting space to ensure they remain comparable, but the related personnel costs, janitorial services, etc., of the university are not considered when setting rental rates. As a result, it is unclear if the rates charged are adequate to cover related costs. The Show-Me Center rental receipts totaled approximately \$467,000 for the 3 years ended June 30, 2010.

University Center

The university has not revised rental fees for the University Center since 2002. The university rents the ballroom, meeting rooms, lounges, the terrace, and the cafe in the University Center to private or non-profit entities for an established rental fee (ranging from \$40 to \$250 depending on the space). University officials indicated they informally compare rates to similar rental space available in the area to ensure they remain comparable, but the costs to the university for related personnel costs, janitorial services, etc., are not considered when setting rental rates. As a result, the rates charged may not be adequate. The University Center rental receipts totaled over \$28,000 for the 3 years ended June 30, 2010.

A documented, periodic review of fee structures is needed to ensure appropriate rates are charged for university facilities and services.

Recommendation

Southeast Missouri State University ensure university personnel prepare and maintain thorough and detailed documentation to support and justify rental rates. In addition, fees should be reviewed and adjusted, if needed, on a periodic basis.

Auditee's Response

The University will review the rental rates this academic year as part of our budget development process. Each auxiliary, including the Show Me Center and University Center, works with the Budget Director annually to prepare each fiscal year's budget. Part of this budget development process is



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analyzing sources of revenue to meet expenditure needs. Rental rates are considered during this budget development process along with other factors such as utilization and cost control. These budgets are presented and approved by the Board of Regents. We agree that periodic review of rental rates (at least every 2-5 years) should be accomplished.

9. Show-Me Center Receipts

Controls over Show-Me Center concession receipts need to be strengthened. As a result of the lack of prenumbered currency and inventory reports and numerous employees who handle monies, one day of receipts in September 2009 totaling \$1,908 were not deposited and could not be located. Because Show-Me Center personnel did not indicate acknowledgement of monies they received from the cashiers for this event, university officials had difficulty determining which employee was responsible when these monies were discovered missing. The Show-Me Center concession sales total approximately \$200,000 annually.

9.1 Receipt records

The Show-Me Center does not use prenumbered reports to account for concession stand transactions. The concession stand cashiers receive unnumbered currency and inventory reports and a set amount of cash for their drawers at the beginning of their shifts. The Show-Me Center allows event organizers and/or student organizations to operate these stands. In addition, the number of stands open at each event varies. At the end of their shifts, the concession stand cashiers transmit the reports along with monies in their drawer to the Concessions Manager. The Concessions Manager reconciles the monies on hand and the inventory and currency reports and then consolidates the information on one currency report for the event. However, the Show-Me Center does not have procedures to ensure all cashier drawers and currency and inventory reports are properly submitted to the Concessions Manager at the end of the event for further processing and deposit.

By not ensuring all cashier sessions are accounted for properly, the Show-Me Center has no assurance that all monies are deposited. As a result, in September 2009, one day of receipts, totaling \$1,908, were not deposited and could not be located. To safeguard monies from theft, loss, or misuse, official prenumbered duplicate currency reports should be prepared when cash is initially issued for the various concession stand drawers. This record should be reconciled to amounts transmitted to the Concessions Manager by someone independent of the receipting or collection functions.

9.2 Cash controls

Various employees at the Show-Me Center transmit monies to other employees for further processing and have access to the concession receipts prior to deposit of these monies; however, employees do not document acknowledgment of the received monies which have been transmitted from one person to the next and there is no independent reconciliation of source records to deposit documents.



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Cashiers transmit receipts and related reports to the Show-Me Center personnel at the end of their shifts. The Concessions Manager reconciles monies on hand with the inventory and currency reports and then prepares a consolidated currency report for the day. The consolidated report and receipts for the day are placed in the safe until the Box Office Manager prepares the deposit.

Because several employees handle monies and the university does not require acknowledgement of receipt amounts, the Show-Me Center had difficulty determining which employee was responsible for the missing \$1,908.

Employees should acknowledge the amounts turned over to the next individual, to establish a trail of accountability. In addition, an independent reconciliation of the source records to the deposit documents would provide additional assurance that all monies were deposited.

Recommendation

Southeast Missouri State University review internal controls over cash receipts and make necessary improvements.

Auditee's Response

The deficiency noted in the audit was identified to the auditors during their review. The Vice President for Finance and Administration and the Controller have developed better internal controls for cash and receipt handling. In addition, they are monitoring more closely the deposits and performing additional surprise cash counts.

10. Taxable Mileage

The taxable mileage reported when automobile dealers or the foundation provide vehicles to university employees is not always adequately supported. Although the university requires employees to report information regarding personal and commuting mileage to be included on the employee's W-2 form, vehicle usage logs are not always maintained to support these mileage calculations. As of June 2010, there were 15 foundation owned vehicles and 11 vehicles donated to the foundation which were provided to various university employees for business and personal use.

Our review of the taxable mileage calculations for 8 of the 26 employees who were allowed to use dealer- or foundation-provided vehicles for personal usage in calendar year 2009 noted:

- Two employees estimated personal and commuting usage annually using calendars to determine the number days worked.



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- Four employees used unsupported percentages (ranging from 8 to 25 percent) as a basis for the amount of commuting and personal miles.
- The other two employees calculated the number of commuting miles using the standard work year of 240 days and stated they did not use the vehicles for other personal use.

None of these eight employees maintains a vehicle usage log to document miles driven for official, commuting, and personal use. The IRS reporting guidelines indicate personal and commuting mileage are reportable fringe benefits and require the full value of the provided vehicle to be reported if the employer does not require the submission of detailed logs which distinguish between business and personal usage. Because procedures have not been established to ensure the IRS regulations are followed, the university may be subject to penalties and/or fines for failure to report all taxable benefits.

Recommendation

Southeast Missouri State University require usage logs be maintained to differentiate between personal, commuting, and business mileage, and ensure commuting and personal mileage are reported in compliance with IRS requirements.

Auditee's Response

The University will establish a required procedure for logging or tracking personal mileage for all dealer-loaned/Foundation vehicles and disseminate those procedures to all individuals who use dealer-loaned/Foundation vehicles.

11. Information Security

The university has not developed an adequate formal disaster recovery plan or performed documented periodic tests of offsite backup data.

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 or other disruptive event.

The current disaster recovery plan provides broad information without providing any procedures for implementing disaster recovery. For example, the plan states the backup material stored offsite should be tested annually for completeness, but does not explain what material should be stored offsite or how the material should be tested. In addition, the plan does not include a prioritized list of critical systems or detailed procedures for restoring these systems, nor does the plan identify key personnel or specific responsibilities for carrying out the disaster recovery plan. According to university officials, the annual review of the backup material is performed; however, this annual review is not documented.



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A comprehensive written disaster recovery plan should include plans for a variety of situations and specify detailed recovery actions required to reestablish critical computer operations. In the case of a disaster or other disruptive event, such documentation can reduce confusion and provide a framework for the uninterrupted continuance of operations. Once a disaster recovery plan has been developed and approved, the plan should be periodically tested and reviewed.

11.2 Backups

The university does not have documented procedures for periodic tests of offsite backup data. Employees have not documented which files have been tested or how often tests are performed. As a result, management does not have assurance all critical backup data could be successfully restored in the event of a disaster or disruption in service. A university official stated some files have been successfully restored which management believes indicates the reliability of backups. However, without performing periodic tests of backup data, management cannot be assured critical systems can be restored if necessary.

Recommendations

Southeast Missouri State University:

- 11.1 Develop a comprehensive disaster recovery plan and periodically test and evaluate the plan.
- 11.2 Establish and document procedures used to periodically test backup data to ensure media reliability and information integrity.

Auditee's Response

- 11.1 The University's Information Technology Department will develop a disaster recovery plan which will include an alternative site recovery operation.*
- 11.2 Procedures will be developed for testing the off-site backup recovery system as described in 11.1 above.*

Southeast Missouri State University

Organization and Statistical Information

Southeast Missouri State University (Southeast), located in Cape Girardeau, Missouri, was founded in 1873 as the Southeast Missouri State Normal School. The school's primary purpose was the preparation of teachers for the public school systems in southeast Missouri. Over the years, the school expanded beyond teacher education to include other institutional and graduate programs through a diverse offering of over 150 academic programs. Along with these academic changes, the school's name changed from the Southeast Missouri State Normal School, to Southeast Missouri State Teachers College in 1919, to Southeast Missouri State College in 1946, and finally to Southeast Missouri State University in 1973. Today Southeast is a diverse university providing a broad array of instructional, research, and service programs.

As of June 30, 2010, Southeast operated campuses at four locations in addition to the main campus located in Cape Girardeau. These other campuses are located in Malden, Sikeston, and Kennett. Classes are also offered at the Perryville Higher Education Center in Perryville, through a cooperative partnership agreement with Mineral Area College. In the fall of 2010, 2009, and 2008, the university's combined fall student enrollment at the main campus and all extended campus locations totaled 11,112, 10,859, and 10,814, respectively. These figures include both undergraduate and graduate students enrolled full or part-time.

The university employed approximately 2,847 full-time, part-time, temporary, and student employees, including 5 executives, 739 staff, 411 faculty, 499 temporary employees, and 1,193 student employees as of June 30, 2010.

The university is governed by a seven-member Board of Regents, appointed by the Governor, with the advice and consent of the Missouri Senate. A current Southeast student sits on the board as a non-voting member. The board members 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.

Board of Regents

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

Name	Position	Term Ends
Donald "Brad" Bedell	President	January 2013
Albert M. Spradling III	Vice President	January 2011
Reginald Dickson	Board Member	January 2011
James P. Limbaugh	Board Member	January 2013
Doyle Privett	Board Member	January 2015
Daren Todd	Board Member	January 2015
Brian P. Kelly	Student Representative	January 2012



Southeast Missouri State University
Organization and Statistical Information

The Board of Regents appoints a President to serve as the university's Chief Executive Officer. Three Vice Presidents and one Provost have been appointed to oversee the areas of University Advancement and Foundation, Enrollment Management and Student Success, Finance and Administration, and Academic Affairs.

Top Appointed Positions

The individuals who served in these top administrative positions and their annual compensation as of June 30, 2010, were as follows:

Name	Position	Compensation
Kenneth Dobbins	President	\$ 249,109 (1)
William Holland	Vice President - University Advancement and Foundation Director	130,000 (2)
Dennis Holt	Vice President - Enrollment Management and Student Success	132,000
Kathy Mangels	Vice President - Finance and Administration	142,000 (3)
Ronald Rosati	Provost	175,000 (4)

- (1) Includes \$194,109 salary, \$30,000 housing allowance, and \$25,000 annuity. In addition to these amounts, a foundation-owned vehicle was provided for his personal and business use, with a calendar year 2009 taxable benefit valued at \$700.
- (2) In addition to this amount, a foundation-owned vehicle was provided for his personal and business use, with a calendar year 2009 taxable benefit of \$555. He served as Interim Executive Director of Development and Director-Corporate Relations until attaining his current position in July 2009.
- (3) Includes \$132,000 base salary, \$6,000 annuity, and \$4,000 additional salary for other duties. In addition to these amounts, \$5,077 was paid to this individual for vacation buyback during fiscal year 2010.
- (4) Includes \$155,000 salary and \$20,000 annuity. He started employment as Provost in February 2010.

American Recovery and Reinvestment Act of 2009 (Federal Stimulus)

According to university personnel, the university was awarded stimulus funding from the American Recovery and Reinvestment Act of 2009, as follows:

A \$155,337 Recovery Act: Formula Grants for Other Than Urbanized Areas - Shuttle Services grant was awarded by the U.S. Department of Transportation and passed through by the Missouri Department of Transportation for the purchase of shuttle buses. As of June 30, 2010, \$155,337 was received and expended by the university related to this grant.

A \$1,172,710 Recovery Act: State Fiscal Stabilization Fund - Government Services grant was awarded by the U.S. Department of Education and passed through by the Missouri Department of Higher Education for the support of postsecondary education which has been used for retaining one Nursing Department faculty position and to expand student enrollment in medical or nursing majors. State appropriations were reduced by the grant amount during the grant period. The grant did not require this position be maintained after the grant ended in June 2010; however it was retained. As of June 30, 2010, \$1,137,044 was received and expended by the university related to this grant.



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Organization and Statistical Information

A \$7,296,681 Recovery Act: State Fiscal Stabilization Fund - Education grant was awarded by the U.S. Department of Education and passed through by the Missouri Department of Higher Education for the support of postsecondary education. The funding has been used for operational expenses and retaining 114.86 Facilities Management and Information Technology positions. Operational expenses included software licensing and computer hardware and software. State appropriations were reduced by the grant amount during the grant period. The grant did not require these positions be maintained after June 2011; however, they were retained due to state appropriations being sufficient to sustain them. As of June 30, 2010, \$5,199,967 was expended and received by the university related to this grant.

A \$379,363 Recovery Act: Environmental Asthma Trigger Training in Schools grant was awarded by the U.S. Department of Education to pay for developing training and providing assessment kits for county local public health agencies staff, as well as developing educational materials for childcare facilities and families with asthmatic children. The university must provide technical assistance to entities benefiting from this grant and analyze data collected and reported. This grant funded 1.5 new positions at the university. The grant did not require these positions be maintained after August 2011, and these positions were eliminated after the grant period. As of June 30, 2010, \$4,217 was received and expended by the university related to this grant.

A \$61,892 Recovery Act: Federal Work Study grant was awarded by the U.S. Department of Education to provide financial assistance to eligible students attending institutions of postsecondary education. As of June 30, 2010, \$61,892 was received and expended by the university related to this grant.

A \$1,330,000 Recovery Act: Repair and Renovation of Faculty Laboratory Facilities grant was awarded by the National Science Foundation to partially pay for the repair and renovation of a chemistry lab in Magill Hall. As of June 30, 2010, no funds had yet been received or expended by the university related to this grant.

A \$36,019 Recovery Act: Cobra Subsidy Credit was awarded by the U.S. Department of Labor to subsidize 65 percent of Cobra benefits for involuntarily terminated employees between September 1, 2008, and December 31, 2009. As of June 30, 2010, \$36,019 was received and expended by the university related to this grant.

Financial information and an organization chart follow:

Appendix A

Southeast Missouri State University
Revenues, Expenses, and Changes in Net Assets

	Year Ended June 30,		
	2010	2009	2008
OPERATING REVENUES			
Student tuition and fees (net scholarship allowances)	\$ 54,649,748	52,840,536	49,753,322
Federal grants	8,248,556	6,312,522	16,364,365
State grants and contracts	6,494,697	7,153,357	5,792,062
Nongovernmental operating grants and contracts	1,756,738	729,455	923,755
Sales and services of educational departments	2,569,506	2,498,118	2,489,366
Auxiliary enterprises:			
Residence life (net scholarship allowances)	14,135,533	13,898,064	12,971,946
Other auxiliary (net scholarship allowances)	9,662,395	9,342,267	9,640,929
Other operating revenue	3,565,263	4,219,494	3,625,275
Total Operating Revenues	101,082,436	96,993,813	101,561,020
OPERATING EXPENSES			
Personal services	84,262,031	84,330,774	81,219,042
Scholarships	26,246,897	23,403,203	21,011,760
Utilities	3,536,114	3,811,264	3,447,800
Supplies and other services	30,605,533	28,809,721	28,816,700
Depreciation	9,155,837	9,833,285	8,096,915
Other postemployment benefit expense	108,357	26,550	387,370
Total Operating Expenses	153,914,769	150,214,797	142,979,587
Operating Loss	(52,832,333)	(53,220,984)	(41,418,567)
NON-OPERATING REVENUES (EXPENSES)			
State appropriations	48,587,885	47,469,311	46,024,911
Federal grants	12,748,893	7,997,854	-
Investment income (loss)	2,883,641	4,691,703	3,383,448
Contributions and gifts	2,747,335	2,366,833	2,664,921
Interest on capital asset-related debt	(4,791,136)	(3,658,558)	(4,084,302)
Loss on disposal of plant facilities	(531,106)	(117,663)	(166,691)
Total Nonoperating Revenues (Expenses)	61,645,512	58,749,480	47,822,287
Income before other revenues, expenses, gains, or losses	8,813,179	5,528,496	6,403,720
Capital appropriations	2,019,161	1,252,646	16,713,000
Capital grants and gifts	2,396,180	1,581,089	12,699,324
Total other revenues, expenses, gains and losses	4,415,341	2,833,735	29,412,324
INCREASE IN NET ASSETS	13,228,520	8,362,231	35,816,044
NET ASSETS, Beginning of Year	268,744,475	260,382,244	224,566,200
NET ASSETS, End of Year	\$ 281,972,995	268,744,475	260,382,244

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

Appendix B

Southeast Missouri State University
 Organization Chart
 June 30, 2010

