UNIVERSITY OF MISSOURI SYSTEM
VOLUNTARY EARLY RETIREMENT INCENTIVE PROGRAM - 2000

From The Office Of State Auditor
Claire McCaskill

The rehire program implemented in conjunction with an early retirement program was not equitably applied to all employees.

Report No. 2001-49
June 28, 2001
www.auditor.state.mo.us

PERFORMANCE AUDIT

Office Of
Missouri State Auditor
Claire McCaskill

June 2001

www.auditor.state.mo.us

YELLOW SHEET

Some participants in the University of Missouri's early retirement program received inconsistent treatment and compensation

This audit details the implementation of the University's Voluntary Early Retirement Incentive Program-2000, a systemwide effort to upgrade the professor corps and redirect money throughout the University's four campuses. Overall, the University accomplished its goal of creating an incentive to encourage retirements, with about 42 percent of eligible employees taking the incentive. But program provisions allowing University officials to rehire certain early retirees were applied inconsistently from campus to campus. More proactive management of the rehire program could have prevented many of the inequities uncovered in this audit.

Funds estimated for redirection undeterminable

University administrators initially estimated $10 million would be freed up through the early retirement program for strategic reinvestment throughout the University System. Administrators presented this initial estimate to the Board of Curators with no detailed supporting records or other documents, but based the estimate on an administrator's experience with a previous early retirement program. Neither the University nor the auditors could validate this estimate because the University has not tracked costs of hiring new employees to fill early retiree positions and cannot estimate costs of hiring future employees. (See page 2)

Rehire provisions applied differently at various campuses

Campus officials administered the rehire provisions of the early retirement program to fit campus cultures. As a result, inconsistencies occurred and some individuals benefited greater than others. The following highlights the major inconsistencies:

- Some campus officials sought and received approval to rehire top administrators back in their administrative positions, a practice strictly prohibited by the program guidelines. After the audit was announced, University officials took various steps to correct these rehires. (See page 10)

- Some campuses rehired a significant number of early retirees above the suggested maximum rehire level, with the St. Louis campus having the highest percentage of such occurrences. All of the St. Louis employees rehired above the suggested maximum level held administrative or support positions, with several being top administrators and Chancellor support staff. No St. Louis faculty members were rehired above 53 percent of their previous salary, which was less than the suggested maximum rehire level of 60 percent. The administrative and support personnel were rehired at levels between 70 and 74 percent of their previous salary. (See page 13)

- University System officials did not address the issue of salary increases for rehired early retirees. As a result on the Rolla campus, some rehired retirees could and did receive raises, but rehired retirees on the St. Louis campus could not. (See page 16)

<u>Some early retirees hit financial "windfall" with dual incentives</u>

Nine faculty members on various campuses, who had already agreed to retire with a cash buyout, also received the early retirement incentives. The University paid these faculty members more than $648,000 in buyout incentives and will pay an estimated additional $624,000 in pension benefits for their participation in the early retirement program. One administrator called the situation a "window of opportunity" that "created a windfall for these individuals." As a result, for future employees, the University has revised the standard contract language for tenured buyouts to preclude a person from receiving dual incentives from a buyout and a similar early-retirement incentive program. (See page 21)

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CLAIRE C. McCASKILL
Missouri State Auditor

Honorable Bob Holden, Governor
and
Board of Curators
and
Dr. Manuel T. Pacheco, President
University of Missouri System

The State Auditor's Office audited the Voluntary Early Retirement Incentive Program-2000 of the University of Missouri System. Complaints within the University system and published reports about the program's rehire practices and overall financial benefits prompted this audit.

The purpose of the audit was to determine if University System officials implemented the program consistently and equitably as well as to review whether the program was cost-effective to the University System. The audit involved a review of the implementation of this program, including rehire practices on the individual campuses, as well as reviewing the cost savings projection.

We concluded the Voluntary Early Retirement Incentive Program met the objectives of the University System President, but we found multiple inequities in the rehire arrangements. As the audit progressed, University officials corrected many of the inequities brought to their attention before the September 2000 retirement date. The University System officials could have been more proactive in managing the early retirement program.

University System officials did not have any documentation to support their $10 million estimate of what could be redirected as a result of early retirements. Our cost analysis disclosed that neither we nor University System officials can determine the validity of this estimate because system officials have not tracked the cost of hiring replacements for early retirees and cannot estimate the cost of hiring future employees for other necessary positions.

Claire McCaskill
State Auditor

February 19, 2001 (fieldwork completion date)

The following auditors participated in the preparation of this report:

Director of Audits:	William D. Miller, CIA
Audit Manager:	Gregory A. Slinkard, CPA, CIA
In-Charge Auditor:	Charles Van Loo, CPA
Audit Staff:	Jeffrey Wilson

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

RESULTS AND RECOMMENDATIONS

1. The University of Missouri Implemented a Voluntary Early Retirement Incentive Program

The University System accomplished the objective of encouraging staff and faculty to retire early by implementing a voluntary early retirement incentive program (early retirement incentive program) in December 1999. University System officials wanted to provide funding to upgrade the level of expertise in the corps of professors and to redirect funds throughout the University System. Although officials estimated the early retirement incentive program would make $10 million available for redirection, they did not prepare any documentation to support this estimate prior to the Board of Curators' approval. In fact, officials did not document this estimate until October 2000—10 months after the Board of Curators' approval. Our cost analysis of this program disclosed that neither University System officials nor we could determine the validity of this estimate because system officials have not tracked the cost of hiring new employees to fill early retiree positions and cannot estimate the cost of hiring future employees for other necessary positions. University officials estimated it would take 2-3 years to determine the cost of hiring new employees.

Conditions of the early retirement incentive program

The early retirement incentive program was available to all employees of the University System, which included campuses at Rolla, Columbia, Kansas City, St. Louis, and the Hospital in Columbia as well as the System President's staff. To be eligible, employees had to meet the eligibility requirements for retirement under the University of Missouri pension plan or who would have met those requirements on or before September 1, 2000, and had a minimum of 10 years of employment required for eligibility for retirement (service credit) under that plan. Any employees who participated in the Civil Service Retirement System or Federal Employees Retirement System and reached age 55 with at least 10 years of eligible service with the University on or before September 1, 2000, were also eligible.

Employees earn extra retirement credit

The early retirement incentive program participants would receive additional annuity benefits that they would not normally receive under the existing retirement programs. Employees could choose to:

- eliminate the early retirement reduction factor (a percentage reduction) for each year the participant is under the eligible retirement age, or

- add 3 years to the service credit earned by the participant while employed by the University of Missouri. However, the additional service credit granted under the early retirement incentive program could not be applied toward satisfying the service credit requirements under the University of Missouri Retirement, Disability, and Death Benefit Plan.

The "return to work" provision that required employees to work 1 year following a sabbatical, research, or development leave of absence would be waived for early retirement incentive program participants.

For eligible employees who participated in the Civil Service Retirement System or the Federal Employees Retirement System, early retirement incentive program benefits under the University of Missouri Retirement, Disability, and Death Benefit Plan would be calculated assuming 3 years of additional service credit under this plan. The present value of future benefits resulting from this calculation would be payable in a lump sum distribution.

In addition to the incentive that increased the participant's annuity payment, the formula used to calculate the portion of a retiree's health and dental insurance premiums to be paid by the University would be adjusted to provide the greater value by either assuming the employee was age 65 at retirement or adding 3 years to the length of service earned by an employee.

Participants could be rehired for transitional purposes in non-benefit eligible positions (positions that would not allow the employee to accumulate benefits while employed) for no more than 2 years to help phase down or transition a unit to a new staff or to continue work emanating from outside research dollars.

The University System officials believed that positions would become available by offering these early retirement incentives and campuses could use these positions to upgrade the level of expertise in the professor corps and staff. University System officials wanted to provide campuses discretion in redirecting the payroll savings to areas that are consistent with the institution's strategic plan.

Staff elect to participate in the early retirement incentive program

Prior to presenting the early retirement incentive program for Board of Curators' approval, University System officials estimated the number of individuals eligible for the program and the percentage of eligible employees who would participate. It was determined that the annual payroll and benefit costs associated with these eligible employees equated to $128.2 million. Program administrators familiar with previous early retirement offers estimated that about 45 percent of the eligible employees would retire, thus affecting $57.7 million in annual payroll and benefit costs.

Participation rate met expectations

The table below shows the degree of participation in the early retirement program at all four campuses.

Total University System Workforce					
Campus/ Division	**Number of Employees**	**Number of Eligible Employees**	**Percentage Eligible**	**Number of Participants**	**Percentage Participants**
Columbia	**7,164**	**892**	**12**	**383**	**43**
Hospital	**4,457**	**162**	**4**	**88**	**54**
Kansas City	**2,236**	**327**	**15**	**112**	**34**
Rolla	**1,079**	**211**	**20**	**102**	**48**
St. Louis	**1,424**	**199**	**14**	**61**	**31**
System	**979**	**147**	**15**	**68**	**46**
Total	**17,339**	**1,938**	**11**	**814**	**42**

Cost analysis disclosed that funds available for redirection could not be determined

University administrators told the Board of Curators in March 2000 that they would strategically reinvest $10 million in payroll savings with the early retirement program. But the audit determined there were not any detailed records or other documentation to support this statement. According to the Vice President of Human Resources, the $10 million estimate was based on experience from a prior early retirement program and he believed the estimate to be conservative.

When asked about the documentation to support the projected payroll savings, the Vice President of Human Resources indicated that none had been prepared. This official provided a written explanation for how he arrived at this estimate in October 2000.

In the written estimate, the Vice President stated approximately $40 million in payroll would be affected annually by implementing the program. The following chart shows the breakout of this impact and how the $10 million estimate developed.

Explanation of Estimated Funds Available for Redistribution	
Salaries Saved from Retirees	40 million
- Cost of Replacement Salaries	25 million
- Cost of Incentives Paid to Retirees	5 million
Net Available	10 million

To determine if the University System would meet its objective of being able to strategically reinvest $10 million, we performed a cost analysis. The table below shows the results of our analysis.

Cost Analysis of Early Retirement Incentive Program						
Campus/Division	**Total Salary Costs of Retirees**	**Rehire Costs of Retirees**	**Retirement Incentive Costs**	**Salaries Of Individuals W/Buyout Agreements**	**Medical Dental Incentive Costs**	**Savings To Be Reinvested**
Columbia/Hospital	**$23,555,464**	**$4,148,369**		**$167,205**		**$19,239,890**
Kansas City	**$5,643,703**	**$709,560**		**$85,950**		**$4,848,193**
Rolla	**$6,182,426**	**$1,409,946**		**$229,007**		**$4,543,473**
St. Louis	**$3,044,030**	**$868,326**		**$202,600**		**$1,973,104**
University System	**$2,877,675**	**$435,089**				**$2,442,586**
Paid by UM System for all participants			**$4,565,400**		**$250,000**	
Total	**$41,303,298**	**$7,571,290**	**$4,565,400**	**$684,762**	**$250,000**	**$28,231,846 ***

* This does not include the cost to hire new replacement staff

We deducted the salaries of individuals who, while participating in the early retirement incentive program, had previously entered into tenure buyout agreements and agreed to retire pursuant to those agreements. We did not consider the related salary costs of these individuals as savings realized by implementing the early retirement incentive program.

Our cost analysis does not reflect the salary costs of any new full-time employees who have been hired to replace retirees of the early retirement incentive program. Although we requested this information to complete our analysis, University System officials were unable to provide this data and they indicated this information has not been tracked and some replacements have not yet been hired.

Based on the above analysis, the University System has approximately $18 million available to hire new employees to fill the positions vacated by retirees and still meet its estimate of having $10 million to strategically reinvest. The University System officials did not track the costs of hiring new employees and were unable to estimate the costs of future new hires. As a result the $10 million estimate cannot be validated. University officials stated that it would take approximately 2-3 years before they would know the total cost to hire new staff. In order to develop these costs, they will have to track them when they occur.

Conclusion

With the exception of matters disclosed in Result 3, page 21, the early retirement incentive program was successfully used to accomplish the objectives. Based on the participation rate, the University officials properly anticipated the number of employees that would take advantage of the incentives, and participation occurred at relatively the same rates at all four campuses.

2. The Rehire Provisions within the Voluntary Early Retirement Incentive Program Were Not Applied Uniformly Throughout the University of Missouri System

University System officials did not give sufficient guidance regarding the rehiring of retirees. The System President and associated officials wanted to give the individual campuses discretion to implement the rehire program within general parameters approved by the Board of Curators. After the audit was announced and as the audit progressed, university officials monitored the discretion given to campuses. Campus officials administered the early retirement incentive program to fit campus cultures; as a result, inconsistencies occurred across the system and some individuals benefited greater than others. Campus officials:

- Established their own procedures that were not consistent across the campuses.
- Sought and obtained approval from the System President to rehire top administrators in their administrative positions, although such rehires were explicitly prohibited in the general guidance that was approved by the Board of Curators.
- Allowed certain individuals to file their intent to retire forms; with the retirement being contingent upon their subsequent rehire.
- Did not consistently comply with the reemployment operational guidelines establishing suggested maximum rehire levels – affecting hours worked and compensation received.
- Did not disseminate rehire guidelines to all levels of management involved in making rehire recommendations.
- Provided salary increases at some campuses and not others and were unsure whether retirees were eligible for salary increases.
- At some campuses rehired retirees at a level of work that could make them ineligible for the retirement benefits they are receiving.

Reemployment opportunities in the early retirement program

The Board of Curators approved an early retirement incentive program that provided opportunities for reemployment to some eligible retirees. Being rehired in a non-benefit eligible position (employees would not receive any benefits; health, retirement credit, etc.) was allowed, for a period not to exceed 24 months, if it was determined to be in the best interests of the university, to phase down or transition a unit to a new staffing level, or to continue research work emanating from outside research dollars. However, the program guidance explicitly stated, "Under no circumstances will senior system or campus officers be allowed to remain in their administrative positions (or similar positions) and draw retirement. Senior system and campus officers are defined as vice presidents, chancellors, vice chancellors, or executive level positions reporting to these officers."

Rehires required justification and the System President's approval if the retirees' combined retirement benefits and rehire salaries exceeded 100 percent of the base salary they were earning before retirement.

The System President communicated in a memorandum to the general officers on the various campuses that the operational guidelines allowed reemployment not to exceed 60 percent full-time equivalency (FTE) for the first year and 40 percent FTE for the second year, and that these guidelines were reasonable for most situations. Exceptions would be considered if there was a compelling academic or business need. He emphasized that reemployment decisions should be based on clearly defined needs to maintain services or programs in the affected units during the period of transition and stressed that although reemployment opportunities existed, they were not an entitlement for individuals opting for early retirement.

University campuses established rehire procedures that were not consistent system-wide

Each campus was responsible for establishing their own procedures addressing rehire issues. Some campuses established detailed procedures for applying for and approving rehires and others did not. The following table shows the inconsistency in application of the rehire program.

PROCEDURE	ROLLA	KANSAS CITY	ST. LOUIS	COLUMBIA
Chain of command for approval of rehires in writing	X	X		X
Chancellor approval required on all rehire decisions	X	X		
Letter of justification required for all rehires	X	X		X
Personnel form with Chancellor's approval signature required		X		
Full-time equivalency percentage for 3-hour course	25	25	10	20
Senior Officials rehired in same or similar positions			X	X
Some retirements contingent upon rehire		X		
Salary increases can be given to rehires	X		X	X

Source: SAO analysis and individual university procedures

The Human Resources Directors of the Kansas City and Rolla campuses established detailed procedures for rehiring early retirement incentive program participants. The internal procedures established the chain of command for rehire recommendations, required a letter of justification with each recommendation, and called for Chancellor approval.

Internally established procedures not followed

The Human Resources Director on the Kansas City campus went one step further by adding a requirement which stated that the personnel action form, which is an internal document used to reestablish the individual on the payroll, "must have all the appropriate approvals before the employee begins working." However, in practice, at least 37 percent of the personnel action forms did not contain the Chancellor's approval prior to the individuals' commencing work. Campus officials could not provide an explanation.

Chancellor unaware of numerous rehires

Although the rehire procedures were similar on the Columbia campus, the Chancellor did not provide the final approval of each rehire. Unless the rehire appointment resulted in an individual's salary and pension benefits exceeding 100 percent of their salary at retirement, the final approval was provided by the appropriate Vice Chancellor or the Provost. If the rehire salary and pension benefits exceeded 100 percent of an individual's pre-retirement salary, the Chancellor's approval was required. The Chancellor issued a memo to the Deans, Directors, and Department Chairpersons stressing that they work together to incorporate the goals of the early retirement incentive program into the campus planning efforts and to manage the program in a way that would support the institution's strategic plan. However, by foregoing the Chancellor's approval on the majority of rehire appointments, there was less assurance that all appointments contributed to the institution's strategic plan and mission.

Written procedures did not exist at St. Louis campus

Officials on the St. Louis campus did not develop any written internal procedures to assist in the rehiring of early retirement incentive program participants. Each employee that was considering retiring under the early retirement incentive program was instructed to meet with the Deputy to the Chancellor to discuss the rehire option. By not establishing specific rehire procedures, the opportunities increased for the program's inequitable administration. There was no assurance that each employee received the same counseling on the early retirement program's options as envisioned by University System officials. The Deputy to the Chancellor was conducting private one-on-one sessions with employees and deciding what was best for the university.

Guidelines for determining the percentage of effort (full-time equivalency) that would be assigned to various duties performed by faculty members were not consistent among the universities. The total percentage of effort assigned to each faculty member has a direct correlation to the compensation received, as it is a percentage of the salary they were earning upon retirement.

Inequitable workloads assigned to faculty

As noted in the schedule above, an individual's compensation for teaching a 3-hour course varied by campus. Compensation ranged from 25 percent workload equivalency to 10 percent workload equivalency for the same course. Because the University System officials did not provide any guidance regarding workload percentages, these discrepancies resulted in inequitable workload assignments, and compensation received, among the various faculty members who were rehired.

Campus officials sought and received approval to rehire top administrators in their administrative positions

Campus officials sought and received approval for exceptions to the provision that expressly prohibited senior officers from being rehired in their administrative (or similar) positions.

St. Louis Campus

The Chancellor at the St. Louis campus asked for and received approval from the System President to rehire three top administrators in the same or similar positions: the Deputy to the Chancellor, the Interim Vice Chancellor for University Relations, and the Director of the Office of Equal Opportunity. The approval received was for 74 percent FTE appointments for 2 years, the maximum workload believed to be allowable while collecting retirement benefits. The documentation requesting the approval to rehire these individuals indicated that their job duties would be similar to the duties they were performing prior to retirement.

In the request to rehire her Deputy, the Chancellor explained the integral role that he played in various projects and stated: "These are attributes that I do not care to even attempt to replace through another individual at this stage of my administration." She went on to say, "I am willing to consider a title change to Special Assistant to the Chancellor if that were deemed to be more appropriate." Documentation from the Office of the System President indicated that her request was approved; however, he indicated a title change was needed.

Senior officials were rehired

The Chancellor's request to rehire the Interim Vice Chancellor for University Relations explicitly stated that he would remain in his current position. The request from the Chancellor stated: "It would be my intention to continue to use this individual as an Interim Vice Chancellor until a successor is chosen…." The System President approved the rehire request, even though it was contrary to the program provisions.

The request to rehire the Director of the Office of Equal Opportunity stated that it would be impossible to ever replace the individual and that time was needed to transition to new leadership, and perhaps a new structure. To assist in the needed transition, the System President approved rehiring the individual for a period of 2 years.

The Chancellor on the St. Louis campus was not the only individual seeking approval to rehire top administrators. The Vice Chancellor for Student Affairs sent a memo to the Chancellor stating, "This memorandum comes to request an exception to the current early retirement guidelines governing the part-time hire backs of employees who opt for early retirement." The Vice Chancellor was requesting permission to rehire the Director of the Office of Student Activities, in his current position. The memorandum stated that an open search for a new Director would begin in September 2002, thus allowing the individual to remain in his current position for 2 years following retirement. The Chancellor forwarded the memorandum to the System President with her recommendation that the rehire be approved. The System President subsequently approved the request.

Clarification of approvals coincides with audit

According to the documentation and approvals, the rehires would assume the same duties they had before they retired, which violated the applicable early retirement incentive program provision. However, shortly after the State Auditor announced an audit of this program, considerable actions and documentation occurred (as described below) to clarify that the provisions of the program had been followed.

After the System President approved rehiring the top three administrators on the St. Louis Campus and after the State Auditor announced the audit, the Chancellor at the St. Louis campus received a memorandum from the System President stating:

> "This note serves to confirm my verbal and written understanding that the duties of these individuals will change and that each will cease to be a senior administrator…my approval of your requests to rehire these three individuals was granted with the understanding that the Board policy would be followed and that these individuals would relinquish their official positions, including any line authority they may possess under the current organization…."

In addition to notifying the Chancellor of his understanding, the System President sent a letter to the President of the Board of Curators stating that his approval of these rehires had been granted with the understanding that the Board policy would be followed and these individuals would relinquish their official positions. It was not until after the subsequent communication from the System President to the Chancellor of the St. Louis campus that serious action was taken to change the duties of the Interim Vice Chancellor for University Relations and the Director of the Office of Equal Opportunity and relieve them of their administrative authority. The change in duties did not become effective until September 1, 2000.

Deputy receives $30,000 salary increase

To avoid having to change the duties of the Deputy to the Chancellor, the Chancellor requested that he withdraw his decision to retire and continue in his full-time position. After the Deputy to the Chancellor rescinded his decision to retire, he was given a $30,000 salary increase (23% of his base pay), which became effective in September 2000. The Chancellor justified the salary increase by stating that additional administrative duties were assigned. Not only did this salary increase ensure his continued employment and effectively take him out of the early retirement incentive program, it provided an extra benefit to him since his base salary for annuity computations would be higher and thus ensures a higher annuity when he retires.

Columbia Campus

Senior officer works for 1½ months in same position

Columbia officials requested approval to rehire the Director of Admissions and Registrar, an executive level official. Although the request stated that the individual was needed (at a 72 percent FTE level) for a 2-month period to continue to serve as Director (same duties), the Chancellor at that campus as well as the System President approved the request. Near the end of the 2-month term serving as Director, University officials realized that this appointment violated the rehire provisions. The administrative duties of this individual were assigned to someone else and he was assigned other duties for the remainder of this period.

The Director of Library Services, a position considered to be executive level, also chose to retire under the early retirement incentive program and was rehired (at a 74 percent FTE level) for a period of up to 2 years to serve in that position until a successor was appointed. The University Provost gave the approval of this appointment, as the individual did not require the System President's approval, in accordance with the program's guidelines. After realizing that the approval may be in violation of the early retirement incentive program provisions, but before the individual actually retired, the Provost requested that the Director postpone her retirement and remain in her full-time position until a replacement could be found, to which she agreed.

Although the early retirement incentive program prohibited rehiring senior officers into the same (or similar) positions, in administering the program campus/division officials requested exceptions to the provision to suit the individual campus/division needs.

Campus officials allowed certain individuals to file intent to retire forms, with the retirement being contingent upon their subsequent rehire

The decision to retire was an irrevocable decision

Although it was not explicitly stated in the early retirement incentive program guidelines, communications from University System officials indicated that individuals' decisions to retire were irrevocable on their part. According to University System officials, this policy was established to ease the administration of the program and to determine the rehire needs of each campus.

An individual's decision to retire was official and irrevocable once he/she submitted their intent to retire form to the human resources department at their campus. The early retirement incentive program required that candidates submit intent to retire forms no later than February 29, 2000.

Various communications to campus officers emphasized "…reemployment is not an entitlement for individuals opting for early retirement."

The former Interim Chancellor at the Kansas City campus submitted documentation seeking approval to rehire three individuals. The documentation indicated that the individuals had submitted their intent to retire forms, an irrevocable decision. Although the intent to retire forms had been submitted, the rehire request from the former Interim Chancellor stated, "This is contingent on the University reemploying the retirees." Approval of these rehires subsequently was received from the System President.

Retirement contingent upon being reemployed

We saw no other instances of employees filing retirement forms contingent upon their subsequent rehire. Allowing these three employees to do so is another example of the program's inconsistent and inequitable implementation.

One of these individuals intended to retire effective September 1, 2000, but at the request of the University, he postponed his plans and accepted a full-time position for 4 months as Interim Vice Chancellor, before retiring and taking a part-time position. By accepting this full-time appointment, the retirement benefits that were going to be received during the period he was a full-time employee had to be suspended. By accepting the position, and suspending retirement benefits, the individual's annual compensation would be $26,000 less than it would have been had he collected retirement benefits and worked in the approved part-time position over the same 4 months. As a means of holding the individual harmless for the decrease in annual compensation, University officials agreed to employ the individual on a part-time basis for 8 months at a rate that would recover the $26,000.

Although there was an agreement to employ the individual on a part-time basis, there was no agreement regarding the duties the individual would be performing while serving in this part-time capacity. According to the Chancellor: "We are still discussing what we will have the individual do during his part-time appointment. An offer has been made to an individual to fill the Vice Chancellor position and we will discuss what he can do. He will most likely chair a committee of some sort."

It is difficult to determine the compelling business or academic need for the part-time employment when the duties are not defined. The decision to "make up the difference" in compensation in this instance would be more credible if the part-time duties had been defined.

Significant disparities existed among the campuses in their compliance with suggested maximum rehire levels

Shortly after the Board of Curators approved the early retirement incentive program, campus officers received a memorandum addressing the program's management and reemployment guidelines. That memorandum stated that a 60 percent full-time equivalency (FTE) appointment for the first year and a 40 percent FTE appointment for the second year was reasonable for most situations; however, exceptions would be considered if there was a compelling academic or business need. The compensation to be received by the retirees rehired has a direct correlation to the FTE appointment, as the rehired employees' salaries are determined by multiplying their salary at retirement by their rehire FTE percentage.

It was not clear how these suggested maximum rehire levels were established; however, we noted that in November 1999, the Vice President of Human Resources sent a memorandum to the general officers which stated: "Reemployment of faculty and staff at non-benefit eligible levels…could effectively circumvent the program objectives…faculty and staff cannot be reemployed except in the most pressing employment areas where fully qualified internal and external candidates are not available."

Disparities revealed in the use of guidelines

Although the directive stated exceptions to the suggested maximum rehire limits would be considered if there was a compelling academic or business need, there was no guidance provided to clarify what might constitute a valid exception. No controls were established to ensure this directive was followed and truly a compelling need existed for any rehires above these established levels. As a result, the various campuses and divisions did not apply this reemployment operational guideline consistently.

The table below shows the percentage of retirees that were rehired by each campus and the percentage of those reemployed individuals that were rehired above the suggested maximum rehire levels. This data discloses significant disparities in compliance with these guidelines. While some of the campuses/divisions made a conscientious and concerted effort to rehire the individuals within the suggested maximum rehire limits, other campuses/divisions appeared to ignore them.

Campus/Division	Percent Rehired to Total Rehired in System	Percent compensated in excess of guideline amounts
Columbia	51	20
St. Louis	11	36
Rolla	16	6
Kansas City	10	3
University System[1]	7	35
Hospital	5	0

Deputy Chancellor disagrees with guidelines

As noted in the previous table, the St. Louis campus rehired a relatively high percentage of the early retirees above the suggested maximum rehire levels. The Deputy to the Chancellor at the St Louis campus said he strongly believed in the program and viewed it as an opportunity to have a "mini-rebirth" on the campus. While he was aware of the reemployment guidelines, he thought the suggested maximum rehire levels were too low to attract many employees to participate

[1] System employees are those who work for the University System and are not affiliated with any of the University campuses.

in the program. He stated that being rehired was a key factor in most of the individuals' decisions to retire.

Because the Deputy to the Chancellor was aware that the System President would consider higher FTE appointments, he stated that he encouraged individuals to accept early retirement. Some rehires were given a 74 percent FTE appointment for a 2-year period. The end result was that a number of top administrators and Chancellor support staff were rehired at high percentage levels, which prompted complaints to the State Auditor's Office from faculty members about unequal treatment.

Several faculty members at that campus reported that they were told the maximum level they could anticipate being rehired was 60 percent in the first year and 40 percent in the second year. Because of the limited rehire levels and/or the heavy teaching loads associated with those rehire levels, some of the faculty stated they decided not to take the retirement offered. A total of 34 retirees at the St. Louis campus were rehired on a part-time basis. No faculty members were rehired above a 53 percent FTE level, which is less than the suggested maximum 60 percent rehire level. All 12 of the individuals hired above the suggested maximum rehire level held administrative or support positions. These individuals were rehired at an FTE level between 70 and 74 percent. Six of these 12 had either held a top administrative position or worked directly for the Chancellor.

Chancellor rehires staff to handle clerical duties

We found the compelling business or academic need for hiring some of these individuals in excess of the established guidelines to be questionable. For example, the Chancellor stated that she recommended the rehire of both her Administrative Secretary and her Executive Assistant due to the heavy telephone traffic in the office, to take care of all the incoming and outgoing mail, and because they were good employees.

Was the need compelling for academic or business?

This problem was not limited to the St. Louis campus. On the Columbia campus, the Assistant Vice Chancellor of Facilities Management informed us that custodians that chose to retire under the early retirement incentive program were allowed to be rehired at whatever FTE percentage they desired. One such custodian was rehired at a 72 percent FTE appointment. The justification documented for this rehire included Boone County's tight labor market as well as that individual's custodial experience, including her knowledge of the cleaning chemicals and equipment. The Vice Chancellor for Administrative Services requested and received authorization to rehire his Executive Staff Assistant, a position similar to that of a secretary, at a 72 percent FTE appointment. The justification documented for this rehire was that the individual had been an integral part of his office for 20 years, had a wealth of information concerning the Administrative Services operation, and was an extremely dedicated and loyal employee that would be sorely missed.

By establishing the reemployment operational guidelines and then not ensuring they were consistently followed by the various campuses/divisions, the System administrators contributed to the inequitable administration of the retirement program.

<u>Reemployment operational guidelines were not distributed to all levels of management involved in making rehire recommendations</u>

The majority of requests to reemploy a retired individual began with the individual's Director or department chairperson. The Director or department chairperson determined the need to reemploy the individual and made a recommendation of reemployment to either their Vice Chancellor or Dean. The Vice Chancellor or Dean then had the authority to either accept or reject the recommendation.

Although the recommendation to reemploy a retired employee began with lower level management, not all management employees received a copy of the reemployment operational guidelines issued.

Management unaware of operational guidelines

Both the Assistant Vice Chancellor for Facilities Management, on the Columbia campus, and the Director of Records Management, within the University System, informed us that they were unaware of the suggested maximum rehire levels included in the reemployment operational guidelines. They stated that they determined a 74 percent FTE appointment was allowed by referring to policies in the University of Missouri Retirement, Disability, and Death Benefit Plan.

Within the retirement, disability, and death benefit plan the issue of full-time employee/appointment is addressed and states "An employee on a nine month service basis must have a full-time equivalency of 100 percent. An employee whose service basis is in excess of nine months must have a full-time equivalency of at least 75 percent."

Because the employees of facilities management and records management have a service basis in excess of 9 months, the Assistant Vice Chancellor and Director recommended 74 percent FTE appointments for those rehires for which they were responsible. They believed this was the maximum appointment possible without making the individual a full-time employee, which in turn would require paying additional benefits.

Since the reemployment operational guidelines were not distributed to all levels of management involved in recommending individuals for reemployment, some individuals received higher pay than intended by the rehire program, which caused the rehire program to be unfairly applied to employees.

Salary increases were given to some rehired retirees and not others

Salary increases not addressed in policy

University System officials did not address the issue of salary increases for retired individuals that were reemployed under the early retirement incentive program. As a result, inconsistent understandings occurred system-wide and within individual campuses. During our campus interviews, we questioned each individual that was involved in the rehire process if rehired retirees could receive salary increases and if they were eligible for future salary increases.

Rolla Campus

While visiting the Rolla campus the Dean of the College of Arts and Sciences informed us that the former Chancellor had established a policy, which was distributed to his staff, which prohibited salary increases to all early retirement incentive program rehires. Three department chairpersons, two within the School of Engineering and one within the College of Arts and Sciences, concurred that salary increases were prohibited for early retirement incentive program retirees. However, the Dean of the School of Engineering stated that rehired retirees were eligible for salary increases at the discretion of the individual Deans and Vice Chancellors. Due to the conflicting understanding surrounding this issue, and our inability to obtain a copy of such policy, we inquired with each Dean and Vice Chancellor about their understanding of the policy. Four Deans/Vice Chancellors believed that rehired retirees were eligible for salary increases, while three believed that the individuals were ineligible for such increases.

Rehire issue interpreted differently

The Dean of the School of Engineering gave salary increases to five rehired retirees. The amount of these increases differed among the five rehires and ranged from 2 percent to 13.5 percent.

St. Louis Campus

The Chancellor established a policy prohibiting salary increases for rehired retirees. The Deputy to the Chancellor believed that this was a system-wide recommendation. Although the majority of Deans and Vice Chancellors interviewed at the St. Louis campus had the same understanding, the Vice Chancellor for Administrative Affairs believed that retirees could receive salary increases based on merit and job performance.

Columbia Campus

The Provost believed that rehired retirees were eligible for salary increases, as there were no provisions prohibiting them within the program. The Vice Chancellor for Administrative Services believed that the individuals were not eligible for increases. The majority of individuals involved in rehiring retired employees on the campus and at the Health Sciences Center were unsure whether the rehired retirees were eligible for salary increases. They informed us that there was not any policy addressing the issue and that it was never discussed. In responding to this question, the Assistant Vice Chancellor of Facilities Management stated “We will cross that bridge when we get to it.”

Kansas City Campus

Although the majority of the officials we spoke with believed that the retirees were not eligible for salary increases, the Interim Provost stated that there had not been any discussions concerning increases in the future.

University System

Officials within the University Systemhad conflicting understandings concerning salary increases for rehired retirees. The Associate Vice President of Management Services and the Director of Risk Management understood that retirees were not eligible for any salary increases. The Director of Records Management understood that increases were prohibited during the first year of reemployment, but was unaware of any policy concerning future increases.

Without sufficient guidance from the early retirement incentive program administrators, the university campus officials were left on their own to interpret what could or could not be done with regard to salary increases. As a result, some employees benefited more than others depending upon where they were employed.

Some campuses rehired retirees at a level of work that could make them ineligible for the retirement benefits they are receiving

Confusion caused by lack of guidance

University System officials did not properly consider the percentage of work effort that could impact a rehired retiree's retirement benefits. According to Section 530.010.C.3.a, of the University of Missouri Retirement, Disability and Death Benefit Plan, any employee working 1,500 hours or more during a contract year is eligible for retirement service credit—thus equating the individual to a full-time employee for retirement purposes. Under these circumstances, a rehired retiree who works 1,500 hours or more reverts to receiving retirement credit, thus negating his/her right to collect retirement benefits at the same time he/she is employed. The early retirement incentive program booklet explicitly states, "An employee who retires under the provisions of the early retirement incentive program and returns to employment in a position with the University that would allow the employee to be eligible for service credit under the University of Missouri Retirement, Disability and Death Benefit Plan will have early retirement incentive program benefits suspended."

Because Section 530.010.A.21 of the University of Missouri Retirement, Disability and Death Benefit Plan defines a full-time employee as an employee, whose service basis is in excess of 9 months, having a full-time equivalency (FTE) of at least 75 percent, campus officials believed that a reemployed retiree could be rehired with an appointment up to 74 percent FTE. However, any time over a 72 percent FTE breaches the 1,500-hour rule.

In late January 2000, the Interim Director of Human Resources on the Rolla Campus brought this oversight to the attention of the University System Assistant Vice President of Faculty and Staff Benefits. The Assistant Vice President of Faculty and Staff Benefits agreed that there was an unresolved issue as evidenced in an e-mail message, "Perhaps we (the benefits department) need to address this issue with the various campuses so as to avoid a problem …"

The Assistant Vice President of Faculty and Staff Benefits did not notify all Human Resource Directors concerning this issue. Officials at the Columbia campus and University System officials were made aware of the issue based on the e-mail correspondence being copied to a member of their human resources department. However, as of mid-November 2000, the Director of Human Resources at the St. Louis campus was surprised by the issue and informed us that he had not heard anything about it. He expressed concern about the numerous individuals that had been rehired at a 74 percent FTE appointment, earning service credit, and collecting retirement benefits. This issue did not apply to the Kansas City campus since none of its retirees were reemployed at a 74 percent FTE level.

Not all campuses were aware of problem

Individuals would not have been rehired at a work level that could make them ineligible for retirement benefits had University System officials properly considered the service credit provision within the Retirement, Disability and Death Benefit Plan, and had the Assistant Vice President of Faculty and Staff Benefits notified the various campuses when the issue was discovered.

<u>Columbia campus officials did not adjust salaries when individuals' rehire levels were lowered to 72 percent FTE appointments</u>

The FTE percentage recorded on some individual personnel action forms did not agree to the FTE percentage recorded on their request to rehire documentation. Although the request for rehire documentation had been approved at a 74 percent FTE appointment level, the personnel action form had been lowered to a 72 percent FTE appointment.

Rehire documentation does not agree

The Associate Director of Human Resources stated that the applicable personnel action forms had been lowered to a 72 percent FTE appointment to address the 1500-hour service credit issue that had been discovered. Although the individuals' rehire level had been lowered, their compensation had not been lowered to correlate with their reduced rehire level, with the exception of one professor. According to the Associate Director of Human Resources, the salaries of the other individuals were not adjusted to correspond to the reduced rehire level because the salary was approved prior to completing the personnel action form. Although the human resources department did not believe it was proper to adjust an approved salary, there was no provision prohibiting the University from lowering salaries. When comparing the salaries of the applicable individuals at a 72 percent FTE appointment level to their salaries at a 74 percent appointment level, we determined that an additional $14,745 per year, up to two years, in unnecessary salary costs will be paid because the salaries were not lowered, and one professor suffered a salary reduction when others did not.

$15,000 in unnecessary additional salaries

Computation of Additional Salaries				
Faculty/Staff	**Salary at Retirement**	**Rehire Salary for 2000-2001 Academic Year**	**Salary at a 72% FTE Appointment**	**Additional Salary Received**
A	**$73,400**	**$54,316**	**$52,848**	**$1,468**
B	**$71,198**	**$52,687**	**$51,263**	**$1,424**
C	**$42,240**	**$39,072**	**$38,016**	**$1,056**
D	**$70,000**	**$51,800**	**$50,400**	**$1,400**
E	**$44,900**	**$33,226**	**$32,328**	**$898**
F	**$225,400**	**$166,500**	**$162,288**	**$4,212**
G	**$75,130**	**$55,574**	**$54,094**	**$1,480**
H	**$140,400**	**$103,895**	**$101,088**	**$2,807**
Total				**$14,745**

Conclusion

While we do not question the authority or the implementation of the early retirement incentive program, we do have concerns with the rehiring program that was established tangential to the retirement program. The lack of guidance in implementing the rehire program and insufficient oversight from the University System level led to multiple inconsistencies in the treatment of many early retirees.

3. Nine Faculty Members Received Cash Buyouts and Early Retirement Incentives

Nine faculty members on the various campuses, who had already agreed to retire with a cash buyout, were also allowed to receive the early retirement incentives offered by the early retirement incentive program. There were not any provisions in the early retirement incentive program that prevented these faculty members from participating, and University System officials did not take appropriate action to ensure these individuals were not overcompensated. These officials stated that since the early retirement incentive program went into effect before the agreed upon tenure buyout retirement dates of these individuals, they were eligible for the early retirement incentive program. The faculty members were paid over $648,000 in buyout incentives under separate contracts, and we estimate they will also receive additional pension benefits related to the early retirement incentive program totaling over $624,000 over the average remaining life expectancy of those individuals. The additional incentives received by these individuals included added years of service or the waiver of the annuity reduction factor based on age. Since both the buyout and early retirement incentives were given to these individuals, they were treated differently than other early retirees and were overcompensated.

Background

It is a common practice in the University environment for tenured faculty members to relinquish their tenured status by entering into a tenure buyout agreement. Tenured status is defined as the act, right, or manner of holding a position, which gives the faculty member protection from being terminated by summary dismissal. Upon entering into a tenure buyout agreement and after their resignation, the faculty member will generally participate in either the regular early retirement or the regular retirement program, depending upon their age.

The benefit to the University of offering these cash incentives is the opportunity to employ a new faculty member with advanced technological knowledge and the opportunity to restructure the academic unit. During buyout negotiations with tenured faculty members, University Officials normally try to cap the amount of the buyout incentive paid at no more than 120 percent of the individual's annual salary. Each tenure buyout agreement is considered a unique and customized transaction. When a Dean of a college/school or the department chairperson of an academic unit initiates a buyout agreement, they will approach the tenured faculty member and begin negotiations.

Once a suitable agreement has been reached between the Dean and the faculty member, an attorney from the General Counsel's Office will draw up a written agreement and present it to the tenured faculty member. The faculty member is given some time to consider the agreement and consult with an attorney. If the agreement is accepted, the faculty member must submit a letter of resignation indicating the agreed upon resignation date. The letter of resignation becomes a part of the buyout agreement. The agreement does not become a legally binding document until the System President approves it.

It is common to have the tenure buyout agreement completed well before the individual's actual date of retirement since faculty members can only retire on March 1 or September 1. Most faculty members are on a 9-month academic appointment and the campuses require that the eligible retirees give at least 3 months notice of their intent to retire. To earn service credit toward retirement, a faculty member must teach an entire semester. By retiring on March 1 or September 1, faculty members are able to earn service credit toward retirement for the semester. Faculty members that are on an 11 or 12-month appointment, which are typically administrative appointments, can retire on any date.

Faculty were allowed to participate in tenure buyouts and the early retirement incentive program

The early retirement incentive program provisions were silent regarding the eligibility of faculty who had already signed tenure buyout agreements. In response to employee inquiries, the University System General Counsel determined that the early retirement incentive program did not contain any provisions that prevented individuals from participating in the early retirement incentive program. Any individual who met the eligibility guidelines and whose retirement date fell within the participation window of the program was allowed to participate, regardless of any prior agreements. A select few individuals were overcompensated because they were allowed to participate in both programs.

The State Auditor's Office received a complaint suggesting that certain individuals on the St. Louis campus received these dual incentives. We confirmed that this did occur at the St. Louis campus as well as at all other campuses as shown below.

Auditors received complaints about fairness

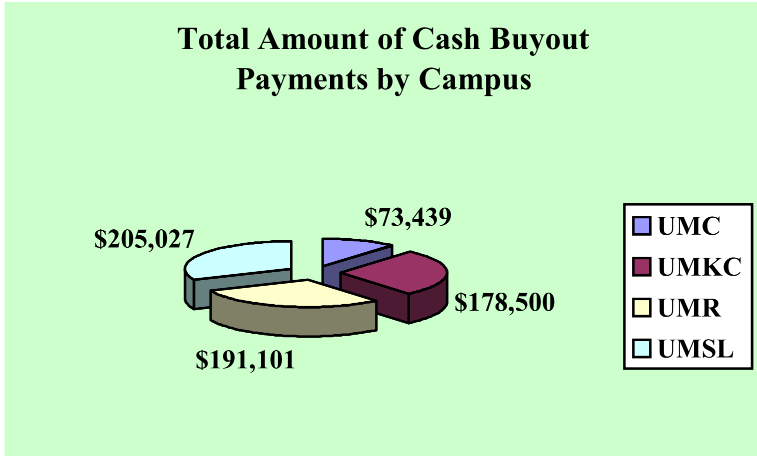
Campus	*Number receiving dual incentives*
St. Louis	3
Rolla	3
Columbia	2
Kansas City	1

The retirement dates of these individuals under the tenure buyout agreements came during the participation window for the early retirement incentive program.

When discussing this situation with the Deputy to the Chancellor on the St. Louis campus, he stated "…the window of opportunity opened up by the early retirement incentive program created a windfall for these individuals…" This "windfall" prompted a faculty member to express written gratitude to St. Louis administrators for allowing her to participate in both the early retirement incentive program and the tenure buyout agreement.

Individuals received two incentives to retire.

Most of the tenure buyout agreements were entered into prior to the announcement of the early retirement incentive program; however, at the Kansas City campus a tenure buyout agreement was entered into after the Board of Curators approved the early retirement incentive program. The following chart shows the amount of cash buyouts by campus.



Some faculty members were overcompensated upon retirement

The following chart presents the additional retirement benefits and buyout amounts for each of the 9 faculty members who received buyouts and the early retirement incentive. As the chart shows, we estimate that over $624,000 in extra pension benefits will be paid to the 9 faculty members who had already signed tenure buyout agreements.

	Pension Benefit					
Faculty	Under Normal Retirement	Annual Increase Due to VERIP[1]	Age at Retirement	Average Remaining Life Expectancy	Early Retirement Benefit[2]	Buyout Amount
A	$18,775	$2,446.52	68	19.1094	$ 46,752	46,636
B	$53,108	$6,122.56	64	17.5718	$107,584	122,727
C	$19,394	$1,845.88	63	18.3345	$ 33,843	35,664
D	$30,447	$4,436.04	65	16.8215	$ 74,621	178,500
E	$34,437	$2,949.96	61	19.8965	$ 58,694	83,650
F	$19,257	$3,114.00	62	19.1094	$ 59,507	90,709
G	$18,757	$5,439.92	58	22.3213	$121,426	16,742
H	$21,466	$2,678.96	61	19.8965	$ 53,302	31,704
I	$31,225	$3,603.44	62	19.1094	$ 68,860	41,735
Total					$624,589	$648,067

[1] The early retirement incentive program
[2] Col. 3 X Col. 5

University Officials should have ensured the individuals who had previously agreed to retire as a part of their buyout agreements were not allowed to also receive the additional incentives offered by the early retirement incentive program. Or, the officials should have provided the opportunity for these individuals to choose which incentive program they would participate in, but not both.

Although the early retirement incentive program provisions did not address this situation, that did not prevent managers from making equitable and reasonable decisions about prior agreements—agreements that were contracts.

Conclusion

The audit question was whether the early retirement incentive program was implemented fairly and equitably for all employees. We concluded, based on Result 1 that the retirement program was reasonably fair and equitable. However, the nine faculty members addressed in this Result gained advantages that others could not. Consequently, with respect to these individuals, the program was not fairly and equitably implemented. In addition, over $624,000 in additional and unnecessary retirement benefits will be paid from the University System's retirement funds as a result of this situation. University officials missed the opportunity to prevent this problem by not having clear guidance that would exclude agreed upon tenure buyouts from the early retirement incentive program.

Recommendation

Since this program is closed to further participation, there are no specific recommendations to be made. However, in the future if such a program is again considered, we suggest that the concerns identified in this report be considered in the program guidance.

APPENDIX I

OBJECTIVE, SCOPE AND METHODOLOGY

Objective

The objective of the audit was to gain an understanding of the Voluntary Early Retirement Incentive Program-2000 and determine if University officials implemented the program equitably, whether rehire practices were applied consistently, and in compliance with program restrictions, and to determine if the early retirement program was cost effective or beneficial to the University System.

Scope and Methodology

Audit fieldwork began in August 2000 and continued through February 2001. Our audit included gaining an understanding of the Voluntary Early Retirement Incentive Program and reviewing retirement and rehire documentation prepared between December 1999 and September 1, 2000. Any retiree rehired after September 1, 2000, was not included in our review. The audit staff:

- Reviewed the Voluntary Early Retirement Incentive Program approved by the University of Missouri Board of Curators on December 2, 1999.

- Interviewed University System officials to gain a general understanding of the program and to determine how the program was to be administered on the various campuses.

- Visited each campus/division to determine how the early retirement program was administered and to determine whether it was administered equitably and in accordance with established guidelines.

- Determined the rehire practices and procedures used by each campus/division of the University System and determined whether they complied with program restrictions.

- Reviewed rehire documentation to ensure early retirement program provisions were applied consistently and fairly to all eligible participants.

- Reviewed any cost analyses prepared by the various campuses/divisions for completeness and accuracy.

The audit was made in accordance with applicable standards contained in *Government Auditing Standards* issued by the Comptroller General of the United States and included such tests of the procedures and records as were considered appropriate under the circumstances.

The scope of the audit was impaired. The General Counsel invoked attorney/client privilege, which is his right, concerning certain correspondence between the General Counsel's Office and the Chancellors of the various campuses regarding the early retirement program and withheld the documentation from the State Auditor's Office. Since the auditors were not allowed access to these documents, we cannot attest to the impact they would have had on the audit results.

APPENDIX II

BACKGROUND

The University of Missouri System includes four campuses; at Columbia, Kansas City, Rolla, and St. Louis. The Columbia campus includes the University Hospital and Clinics. The University System currently employs 24,472 faculty and staff and has 54,336 students enrolled at the various campuses.

On December 2, 1999, the University of Missouri Board of Curators approved the Voluntary Early Retirement Incentive Program-2000. This was the second early retirement incentive program of this type implemented by the University of Missouri System. Previously, University System officials had implemented a similar early retirement incentive program in 1992.

The objective of the early retirement program was to free up general operating dollars and redirect them to mission enhanced areas, in accordance with the University of Missouri's strategic plan. The early retirement program offered incentives to employees that were at least age 55 and had at least 10 years of service with the University. The incentives included either adding 3 years of additional service credit or eliminating the annuity reduction factor based on age, whichever was most beneficial to the participant. The early retirement program also offered the opportunity for reemployment of faculty and staff, in non-benefit positions, for transitional purposes based upon operational necessity where it was in the best interest of the University.

Approximately 814 individuals elected to participate in the early retirement incentive program. Upon retirement, the University reemployed approximately 300 of the retired individuals in part-time non-benefit eligible positions.

Mission Statement of the University of Missouri System

"The mission of the University of Missouri, as a land-grant university and Missouri's only public research and doctoral-level institution, is to discover, disseminate, apply, and preserve knowledge. It thereby stimulates learning by its students, and lifelong learning by Missouri citizens, and advances the health and well-being and the intellectual, cultural, social, and economic interests of the people of Missouri, the nation, and the world."

Structure

The University of Missouri System has four separate campuses in the state: the University of Missouri-Columbia, the University of Missouri-Kansas City, the University of Missouri-Rolla, and the University of Missouri-St. Louis. Within the University of Missouri-Columbia is the Health Sciences Center, which encompasses the University Hospital and the Ellis Fischel Cancer Center. Each campus has a Chancellor who serves as the Chief Operating Officer of their respective campus. Each Chancellor reports directly to the System President. The System President reports directly to the University's Board of Curators, which is responsible for the general control and management of the University System. According to the Missouri Revised Statutes and Constitution, the Board of Curators has the power to appoint and remove the

President and other employees of the University, assign their powers and duties, and fix their compensation.

UNIVERSITY OF MISSOURI SYSTEM — Columbia • Kansas City • Rolla • St. Louis
OFFICE OF THE PRESIDENT — 321 University Hall Columbia, MO 65211 Telephone (573) 882-2011

May 25, 2001

The Honorable Claire McCaskill
State Auditor
224 State Capitol
Jefferson City, MO 65101

Dear State Auditor McCaskill

The state auditor's office has concluded that the University's recent voluntary early retirement incentive program (VERIP) is meeting the goals set for it by the University's president and the Board of Curators. The University agrees wholeheartedly with this assessment

The University's retirement program is comparable with the best University-based retirement plans in the nation. Moreover, the University's plan is prudently and conservatively administered at substantially lower cost than other state plans such as MOSERS, as well as plans of other universities.

Although the state audit team generally gave the University good marks for its early retirement incentive program, the University takes issue with some of the audit team's conclusions having to do with administrative procedures. In this context, the University's brief response to the audit report contains additional perspective that may prove useful in understanding the issues raised by the audit team.

Audit Report, Section 1

The state audit team concluded that the University's voluntary early retirement incentive program, or VERIP, accomplished its objective. VERIP provided eligible University employees with favorable inducements to take early retirement. University planners used VERIP as a management tool that enabled the University to respond more quickly to changing conditions in higher education. Prior to 2000, the last time the University offered an early retirement option was 1992, with excellent results.

Chancellors of the University System's four campuses have been given wide discretion to use funds generated by VERIP to restructure personnel positions on their campuses to meet the University's most important priorities. This restructuring process is essential if the University is to reposition academic programs to meet the changing demands of the economy for highly qualified graduates in a host of newly emerging or evolving fields.

The success of VERIP can be measured by looking at the numbers. Of the 1,938 employees who were eligible to take early retirement, 814 employees, representing about 42 percent of eligible individuals, actually exercised their option to retire. This result is very close to the University's original estimate of 45 percent and affirms that the original estimates of retirement rates and salary recoupment were accurate.

In its report, the audit team expressed concern that the University did not provide documentation to support its estimate that VERIP would generate a minimum of $10 million in payroll savings for reinvestment in high priority appointments and programs. Early in the audit process, University officials were given to understand that the audit would focus on whether the University followed Board of Curators and internal guidelines, and not on financial matters. The requested information was provided once it became clear that the audit would consider financial issues.

Projections of retirements and payroll savings were conservative by design. University officials have stressed that the estimate of the number of employees who would elect to take VERIP was considered conservative, as was the estimate of payroll savings. The two major elements of VERIP – the number of VERIP retirees and the amount of savings – are, of course, inextricably linked and form the basis for the University's projections. This point of logic is missing in the report. The University is pleased to note that the audit team's own cost analysis led it to conclude that the program could yield more than $10 million for strategic reinvestment.

VERIP marked the beginning of a process, not the end of one. The University currently is in the two-year transitional phase following completion of VERIP on September 1, 2000. During the transition phase, campus leaders are reviewing position requirements, redesigning some positions and establishing new ones, and recruiting new faculty and staff. This process takes time, and it is not unusual that final numbers are not yet available.

Audit Report, Section 2

Section 2 of the state audit report pertains to reemployment policies. In particular, the audit team was concerned that rehire provisions of VERIP were not applied uniformly throughout the University of Missouri System.

The voluntary early retirement incentive program was just that – a voluntary program to encourage eligible employees to retire. *VERIP was not, nor was it ever intended to be, a rehire program.*

The University has always had provisions in place for rehire of retired individuals with essential skills on a part-time, non-benefit eligible basis to assist the University in achieving its academic and support functions. The decision whether to rehire an individual upon his or her retirement is based on the needs of the University. This guiding management principle was applied in all cases involving rehire decisions arising from VERIP.

The audit team suggested that University officials could have employed tighter administrative controls to ensure that rehire practices were strictly and uniformly followed throughout the process. This highly centralized approach is inconsistent with the management philosophy that guides University governance. Some context may be useful in understanding the University's position on the point raised by the audit team.

The UM System is comprised of four campuses located in Columbia, Kansas City, Rolla and St. Louis. In 1986, a report prepared under the leadership of Charles F. Knight, then-chairman of Emerson Electric, strongly encouraged the UM System president to delegate authority for certain operational decisions to the chancellors of the four campuses. Based in part on the recommendations contained in the Knight report, the UM System has rejected a management style that requires lengthy and time-consuming approval chains. In its place, the University's leadership has favored a broadly defined and decentralized management style that affords chancellors the opportunity to operate their respective campuses consistent with local needs. This broad-based philosophy of management makes better use of available resources to support the academic enterprise on four very distinctive campuses and has served the University well.

Viewed within the context of personnel issues, the University president traditionally has delegated to the chancellors considerable authority to approve the vast majority of personnel actions involving both academic and nonacademic appointments. In this particular instance, the UM System issued clear and unambiguous guidance to the chancellors for the conduct of VERIP and the selective rehire of employees whose skills or knowledge were required during the post-retirement transition period. System approvals, when required, were provided if the recommendation seemed consistent with the overall program objectives. System officials did not attempt to unnecessarily second-guess the chancellors.

As the audit report acknowledges, the chancellors were given substantial discretion with regard to individual rehire decisions on the premise that they know best the needs of their individual campuses. *Upon the completion of the two-year transition period, the payroll costs associated with these temporary, part-time rehires will be available to the University for reinvestment.*

The "transition provisions" in a program of this nature are critical. Individuals taking early retirement could be rehired by chancellors under these provisions, for varying periods not to exceed two years, provided the guidelines were observed. *Rehire decisions were based on the chancellors' assessments of needs on their respective campuses, and not on the preferences of the individuals in question.*

The University agrees with the audit team's assessment that the rehire standard for establishing "compelling academic or business need" may have been interpreted too liberally in some instances. The University contends, however, that differences in implementation procedures on the campuses did not rise to the level of deliberate violations of the guidelines, as the audit report seems to suggest..

The audit team expressed concern that top administrators were being rehired in their original positions. The Board of Curators did not delegate to the president the authority to approve exceptions concerning executive rehires. The guidance to chancellors regarding the rehiring of top level administrators was clear: Responsibilities of rehired administrators could not remain the same, line authority had to be relinquished, and approval of such rehire cases was subject to the same two-year transition rules as for other employees. When it became apparent that the guidelines were being interpreted too liberally in some instances, University officials acted with dispatch to ensure that the guidelines were followed.

University audits of rehire actions were occurring simultaneously with the state field audit. It would have been unreasonable for the University to suspend its own audit process simply because the state audit team was conducting an audit at the same time. *UM System officials believe that the University's own review of rehire cases during the spring and summer of 2000 detected and corrected discrepancies as they were identified.*

Administrative discrepancies were identified in both audits; however, the number of cases was quite small when we consider that nearly 300 persons were rehired for periods not to exceed two years. In cases that were highlighted in the report as major infractions, one individual worked in the same position for 1½ months before University officials detected the rehire error. In another case, the person became ineligible for the retirement annuity based upon benefit eligible reemployment. The individual postponed retirement at the request of campus officials.

Given the overall success of the program and the objective to give chancellors the latitude to lead their campuses, perhaps it is a small price to pay to have less than 100 percent uniformity in reemployment procedures. The rationale of University leaders was, and is, clear. Every dollar the University spends on bureaucratic or redundant activities is one less dollar that can be spent on academic programs, effective teaching, research and service.

The audit report also suggests that employees were hired at levels that made them ineligible for retirement benefits. The field auditor's understanding of this process was incorrect, perhaps because the University's eligibility rules differ from state rules. Since the inception of the University's retirement plan, service credit is earned if any nonexempt employee works 1500 hours. At the University of Missouri, only nonexempt employees (consistent with the Fair Labor Standards Act) maintain official payroll records based on hours worked. Exempt employees are not paid by the hour, and their retirement service credit eligibility is determined solely on FTE (75 percent or greater) and duration of employment. Not once in the history of the retirement program has the University given service credit to an exempt employee whose FTE is greater than .7212 percent FTE but less than 75 percent FTE. While this has not been an issue for the last 42 years, the University will recommend modification of applicable policies to reflect that the "hours worked provision" applies only to those individuals who are classified as nonexempt employees and who are required, by law, to maintain hours worked.

Salary adjustments, other than those impacted by the 2 percent reduction in FTE, are based upon market, merit and business needs of a unit. Generally, increases would not be appropriate the first year unless wage schedules changed or special market conditions existed, or job responsibilities were increased. For subsequent year(s) the increases should be consistent with increases for similarly situated part-time employees.

__Audit Report, Section 3__

The University respectfully disagrees with the audit team's conclusion that the University should not have abided by its contractual understanding with nine employees who had entered into "tenured buyout agreements." It was and remains the opinion of the University's General Counsel and his staff that the contracts entered into by these individuals afforded them the retirement program provisions that were available to other faculty and staff. To unilaterally change these agreements subsequent to the contractual understanding or to create a provision in the retirement program that would purport to negate these agreements would have been wrong and would have created an unwarranted risk of litigation.

In conclusion, the University has made two adjustments in practice or policy. First, the University has revised the standard contract language for tenured buyouts, which will preclude a person from simultaneously receiving the benefits of a tenure buyout and a VERIP styled program. In the future, VERIP policy also will specifically address the treatment of those who signed such agreements. Second, The University has clarified the 1500-hour provision for retirement eligibility. The concerns identified in the report, when applicable, will be fully considered in guiding future VERIP programs.

Sincerely,

Manuel T. Pacheco

Manuel T. Pacheco
President

/clc